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15 JULY 1986

# China Report

## ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

# IMPLEMENTING PATENT SYSTEM SEEN PROMOTING MODERNIZATION

Beijing GUANGMING RIBAO 29 Dec 85 p 1

[Commentator's article: "Implementing the Patent System Will Promote the Four Modernizations; Congratulations on the Issue of the First Batch of Chinese Patent Certificates"]

[Text] After 9 months of assessments and examinations, China's Patent Bureau yesterday issued the first batch of Chinese patent certificates. This is a joyous occasion in the history of China's scientific and technological development and demonstrates a substantial step forward in China's patent undertakings. It also demonstrates that China's patent undertakings have arrived at a new stage of development. We wish to congratulate here most warmly the first batch of 143 recipients of Chinese patents!

In the very short time of only 9 months since the Chinese patent law came into force in April of this year, more than 100 patent projects have been examined and approved; this is a rare achievement in the world's history of the development of industrial property rights. It is indicative of the vast reservoir of inventive and creative strength in the Chinese people, and also testifies to the fact that establishing a patent system in China and drawing up a patent law conforms to a need in China's scientific, technological and economic development.

The reform of the scientific and technological system made it increasingly clear to the Chinese people that technology, in the same way as material commodities, has value and use value. Granting the exclusive rights to scientific inventions means acknowledging that the result of creative intellectual work is also a kind of an asset, which must receive protection in law. Granting exclusive rights to valuable inventions is bound to help spur on scientific and technological personnel to bring their intelligence and wisdom into play and to exert greater enthusiasm for contributions toward the four modernizations; it will also be helpful to improve implementation of the policy toward the intellectuals, and will be beneficial for the introduction of foreign advanced technologies and for opening up domestic markets for technologies.

The purpose of implementing a patent system is not merely to issue patent certificates, but rather to accelerate the transformation of the patented technologies into productive forces. Following the issue of patents, the organs in charge of patent administration at all levels, all agencies and service organizations must therefore grasp enforcement of patent rights as an important task, and by every means at their disposal have the patented technology serve the construction of the national economy as quickly as possible. The organs in charge of patent administration at all levels, as well as judicial organs and relevant departments, must all strengthen propaganda of the patent law, strengthen the concept of the legal system of industrial property rights among enterprises and among all units that use inventions, and must prevent the occurrence of patent infringements. This is the only way in which we can consolidate the newly created patent system, promote the spread and use of inventions, and promote the development of China's science, technology and the four modernizations.

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CSO: 4006/561

PROVINCIAL AFFAIRS

## ANHUI GOVERNOR ADDRESSES ECONOMIC REFORM MEETING

OW171400 Hefei ANHUI RIBAO in Chinese 4 Jun 86 p 1

[Dispatch by reporters Yang Yusheng and Ma Biling]

[Text] A 4-day provincial meeting on economic structural reform ended yesterday in Hefei. The meeting conveyed the guidelines set at the national conference on reform of the urban economic structure and, in particular, discussed the work of developing lateral economic cooperation and supplementary regulations on further promoting economic associations enacted by the provincial government.

The meeting was attended by responsible comrades of the provincial CPC Committee, the Provincial Advisory Commission, the provincial People's Congress Standing Committee, the provincial government, and the provincial CPPCC Committee.

Comrade Zhang Dawei spoke immediately after the opening of the meeting. He relayed the guidelines set at the national conference on reform of the urban economic structure and, based on the actual situation in our province, put forth opinions on eight questions, including the development of lateral economic cooperation, the correct attitude toward the new situations and problems arising in the course of reform and the proper handling of these situations and problems, as well as the demarcation line between invigoration of the economy and unhealthy trends.

In his summing-up report at the meeting, Comrade Wang Yuzhao said: During the Sixth 5-Year Plan, our province made ceaseless and in-depth efforts to develop lateral economic cooperation under the guidance of the policy of enlivening the domestic economy and opening to the outside world. Now our province has established cooperative relations with 52 provinces, municipalities, and autonomous regions. Within our province, we have formed a variety of economic association networks, including those for interarea, interdepartmental, and intercity cooperation and those linking cities with the countryside, enterprises with other enterprises, enterprises with scientific research units and institutions of higher learning, and military industrial enterprises with enterprises making civilian products. The development of our province's lateral economic cooperation has several characteristics: First, lateral economic cooperation is progressing toward long-term stable development.

Specifically, it is developing from temporary and one-time cooperation focusing on the exchange of supplies to the establishment of a relatively stable partnership. It is developing from joint projects regarding the use of energy and raw and semifinished materials to all-round cooperation and exchange in the use of funds, technology, materials, personnel, and information. And it is developing from scattered cooperative projects carried out by the people to comprehensive and well-planned association. Second, cooperation among enterprises in developing toward the production of well-known, high-quality, new, and special products. At the beginning, all enterprises and departments put great emphasis on boosting production capacity when formulating cooperative projects. Now attention has been gradually shifted to tapping internal potentials and upgrading technology so as to improve the quality of enterprises and enhance the competitiveness of their products. Most of the new economic association arrangements are made for the production of well-known, fine-quality, new, and special products. Third, regional association and cooperation have been strengthened. To develop multilayered and all-round association, open-type regional economic networks of various scales, each with its distinctive characteristics, have been established around central cities in some localities during the past 2 years. This has promoted multilateral association among enterprises, accelerated the rational exchange of funds, technology, and personnel, and motivated the economic development of remote regions and poor mountainous areas. Fourth, technological cooperation has become the principal part of lateral economic cooperation. Fifth, while developing associations, ceaseless efforts have been made to explore markets nad beef up these associations. Simultaneously with the acquisition of funds, technology, and personnel from coastal areas, efforts have been made to seek new association partners. As a result of these efforts, lateral economic ties have been established with some localities in the northwest, southwest, north, and northeast.

After elaborating on the vital importance of lateral economic cooperation, Comrade Wang Yuzhao stressed the need to take into consideration the actual situation in various localities and to display a pioneering spirit in carrying out the guidelines set at the national conference on reform of the urban economic structure. He said that emphasis should be put on the following tasks:

Continue to streamline administration and to delegate power to lower levels so as to ensure that enterprises exercise their decision-making power in conducting lateral economic cooperation. We should pay close attention to expanding the power of enterprises and make this work perfect. We should see to it that our enterprises are able to participate, according to their own will, in various lateral economic cooperation organizations in a way acceptable to them by using their available funds, technology, personnel, equipment, installations, and various means of production and operation on the basis of equality, voluntariness, mutual benefit, and common development. In addition, it is necessary to grasp firmly the liquidation and reorganization of those companies that actually function as administrative departments and to unswervingly carry out the system of having the plant director (manager) assume full responsibility.

Remove the barriers among departments and among regions and develop socialized large-scale production. The competent departments and localities must refrain from unreasonable administrative intervention in enterprises out of partial or local interests. They should not restrict, obstruct, or create difficulties for enterprises affiliated to them or in areas under their jurisdiction in developing or suspending associations with counterparts in other regions. Efforts should be made to carry out supplementary reform measures.

Further relax policy restraints. It is necessary to change policies and regulations unfavorable to lateral economic associations, and to formulate a number of specific policies and measures supporting and protecting lateral economic associations to ensure their smooth development.

Enhance the capacity of key cities to fan out. We must cross the limites of "urban proper," keep in mind the overall economic development of areas around key cities, and fully exploit the existing and potential strong points of both cities and the countryside to create overall social and economic benefits.

Develop and improve the unified socialist market. We should make vigorous efforts to lift restrictions with regard to commodities, capital, technology, and personnel; expand lateral circulation channels; and create conditions for enterprises to carry out commodity production and business activities in a wider area.

In conclusion, Governor Wang Yuzhao said: In developing lateral economic associations, we will encounter many problems involving the management systems and economic interests of enterprises. We must exercise effective leadership, make rational plans, and earnestly solve those problems that crop up in the course of developing lateral associations to ensure and push forward the healthy, deepgoing development of lateral economic associations. He pointed out that prefectures, cities, and counties should all set up and strengthen organs in charge of reform of the economic structure and cooperation. Governments and economic administrative departments at all levels should place the development of lateral economic associations high on their agenda, and should study, inspect, and supervise this work on a regular basis. They should strengthen planning and guidance over lateral economic associations and offer coordination services for them in real earnest.

Also attending the meeting were officials of prefectural administrative offices, cities, counties, prefectural and city planning commissions, economic commissions, and economic coordination offices; economic structural reform offices, including economic structural reform offices of 22 pilot counties for carrying out comprehensive reform of the economic structure, and liaison personnel assigned by the province to those counties; and officials of the relevant provincial departments and bureaus. Some department and enterprise officials from Hefei, Bengpu, Fuyang, and other localities exchanged their experience in developing lateral economic associations at the meeting.

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PROVINCIAL AFFAIRS

## GUANGXI'S CHEN HUIGUANG DISCUSSES LEARNING FROM GUANGDONG

HK180255 Nanning Guangxi Regional Service in Mandarin 1000 GMT 15 Jun 86

[Excerpts] The regional CPC Committee and regional people's government held a report meeting yesterday morning. Regional CPC Committee Secretary Chen Huiguang, who had recently and personally led a Guangxi study and visiting group to Guangdong for the purpose of study, introduced the situation and experience of Guangdong. He said to the comrades present at the meeting: In conjunction with our region's practical situation, we must use the advanced experience of Guangdong for reference and strive to invigorate Guangxi's economy.

The report meeting was presided over by Regional CPC Committee Deputy Secretary Tao Aiying. Attending the meeting were He Youjia and Zhong Jiasuo, regional CPC Committee Standing Committee members; Lin Kewu, regional people's congress Standing Committee vice chairman; and Wang Rongzhen, regional people's government vice chairman. Others attending the meeting were responsible comrades of the departments, commissions, offices, and bureaus at the regional level and all representatives who were attending the regional conference in Nanning on economic work.

Chen Huiguang first introduced the experience of Guangdong Province in implementing the special policies and flexible measures given them by the central authorities and the situation in profound changes in the province's economic construction and social outlook.

1. The speed of development has been fast. During the Sixth 5-Year Plan period, the national economy continuously and steadily increased, the whole province's gross industrial and agricultural output value recorded an average increase of 13.6 percent each year and its gross social output value, gross national product, and financial revenue increased by an average of over 13 percent each year.

2. The agricultural economy has been invigorated. They took the road of integrating the development of trade, industry, and agriculture. Under the premise of guaranteeing grain production, commerce, trade, industrial and mining enterprises, and agriculture were simultaneously promoted.

3. New projects have been quickly started. While visiting various places, we saw that many enterprises were simultaneously being built, installed, and put into operation.

4. The stamina for development has been great. Guangdong Province's economic foundation was relatively solid. The speed of development during the Sixth 5-Year Plan period exceeded the national average level and exceeded our region's level by nearly 100 percent. During the Seventh 5-Year Plan period, the speed of development will be higher than the national average level. They have made more investments and the new increases in their installed generating capacity are also very big. This is the reason for the great stamina of Guangdong's development.

In dealing with Guangdong's basic experience, in his report, Chen Huiguang expounded the following four aspects:

1. The focal point of work is unswervingly shifted onto economic work and construction is embarked on with one heart and one mind. CPC committees and governments at all levels of Guangdong Province have implemented the line, principles, and policies very resolutely and promptly since the 3d Plenary session of the 11th CPC Central Committee. In 1979 and 1980, they completed the historical task of bringing order out of chaos. The province has carried out a series of reforms on its economic front and in practical work, constantly eliminating leftist influence. Ranging from the provincial authorities to the grassroots and from cadres to the masses, they are now thinking about, talking about, and doing economic work.

2. Proceeding from realities and taking such measures as are suited to local conditions, they grasp economic construction. Guangdong's experience in this aspect is very successful. For example, regions along the coast pay great attention to the study of, and make use of the advantageous situation, bordering on Hong Kong and Macao in order to vigorously engage in doing assembly work with parts supplied by foreign firms, in doing processing work with materials or parts supplied by foreign firms, and in compensation trade. Places which have many Overseas Chinese try in every possible way to absorb foreign capital through the Overseas Chinese. Mountainous areas concentrate their attention on bringing their advantages in resources into play. Luoding County, which was originally relatively poor, has given play to its advantages, resulting in promoting rapid economic development. This is a very convincing example.

3. They take flexible measures to creatively implement the party's policies. Their party organizations at all levels do not indiscriminately copy the provisions of the policies of the Central Authorities but pay attention to understanding the general spirit of the party's policies and implement them in the light of their practical situation. For example, in the issue of enterprise ownership, in accordance with the policy of coexistence of the state, collective, and individual economy, which is permitted by the state, over the past few years, many prefectures, cities, and counties have vigorously developed enterprises under collective ownership, in addition to the enterprises in which the state and province have invested. Economic results are very good.

4. They vigorously make investment and lay stress on economic results. Guangdong has scored many successes in this aspect and it is worth our learning from the following:

First, the methods of investment are numerous. In addition to the higher level investment by the Central Authorities, the province uses many methods, including mainly absorbing foreign capital, relying on loans, developing internal economic associations, and raising of funds by the masses, to open up the means of investment.

Second, all departments are closely coordinated with one another. They make concerted efforts to make investment.

Third, power is delegated to lower levels and the number of links is reduced to prevent the movement of documents.

Fourth, the focal points are guaranteed. When they make investments, they pay attention to guaranteeing the key areas and key projects.

After that, Chen Huiguang put forward specific views on how to learn from Guangdong's experience and how to speed up the invigoration of Guangxi's economic construction:

1. It is necessary to further unify thinking and understanding. When we visited Guangdong this time, we found the difference and, at the same time, also saw that Guangxi's natural resources are abundant. The problem is that we have not exploited our resources and transformed them into commodity advantages. We started grasping the economy several years later than Guangdong did. We must not be self-abased. We must be confident, further eliminate and overcome the leftist pernicious influence and the influence of the force of habit of the natural economy, uphold the political situation of stability and unity, really shift the focal points of our work onto the four modernizations, further emancipate our minds, vigorously develop commodity production, and invigorate Guangxi's economy. The Regional CPC Committee is ready to hold another discussion meeting on economic reform in August, to sum up experiences and lessons of the past few years, to unify our thinking, to enhance our understanding, and to shift the focal point of our work still better.

2. It is strategically essential to give prominence to the focal point. All prefectures, departments, and enterprises must firmly establish the idea of developing the commodity economy. We must give guidance according to different situations and speed up the economic development of five cities and the areas along the coast and in the southeast part of Guangxi. This is a strategic focal point in invigorating Guangxi's economy. At the same time, we must not relax our efforts to develop the areas in the west and northwest parts of Guangxi and must work hard to solve the problems of clothing and food. We must also start all development projects in a planned way and build up forces for large-scale development.

3. It is essential to implement flexible policies. In terms of principle, must firmly implement all policies of the central authorities. In terms of

method, it is necessary to persist in proceeding from reality and to be creative and flexible. After full discussion and study, the regional CPC Committee and regional government revised 12 points on invigorating the economy, which must be resolutely and seriously carried out.

4. It is imperative to firmly grasp the key measures in the aspect of economic management. First, we must firmly grasp investment work. Without investment, there is no output. We must try to reserve more money for enterprises and localities so as to strengthen their ability to transform themselves. Financial departments, must give full play to their role and put more funds into circulation. The reserve funds of all enterprises and institutions and the money of all localities must be flexibly regulated and used in production and construction. Through developing lateral economic ties, we can raise funds, develop stock business, and utilize the funds of departments of the central authorities, other provinces and regions, and society. We must also try in every possible way to absorb foreign capital, including the utilization of international bank loans. Second, we must import advanced technology. Due to the fact that the equipment of our factories and mines is outmoded, our technologies backward, and the quality of our products is poor, it is very urgent to speed up technological transformation. Third, we must firmly grasp construction speed and economic results. All enterprises must put economic results above everything else.

5. Leaders must wholeheartedly serve the grassroots. During the Seventh 5-Year Plan period, leadership organs at the regional level and at all levels must wholeheartedly serve reform and the grassroots. They must improve their work style, enhance their work efficiency, give play to the functional role of departments, and strengthen the unity and cooperation of departments.

In conclusion, Chen Huiguang said: So long as we strengthen unity and close coordination, emancipate our minds, work in a down-to-earth manner, strengthen technological cooperation with Guangdong Province, and vigorously develop lateral economic ties with our fraternal provinces and regions, including Jiangsu, we stand a good chance of invigorating Guangxi's economy.

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## SHANDONG REPORT ON 1986 ECONOMIC, SOCIAL DEVELOPMENT ISSUED

SK130414 Jinan SHANDONG RIBAO in Chinese 24 May 86 pp 2, 3

["Excerpts" of the report on Shandong Province's draft plan for economic and social development, delivered by Wang Xin, chairman of the provincial Planning Commission, at the Fourth Session of the Sixth Shandong Provincial People's Congress on 10 May]

[Text] 1. Implementation of the 1985 Plan

In 1985, under the leadership of the provincial CPC Committee and the provincial people's government, the people of the province conscientiously implemented the series of the important policies and decisions of the CPC Central Committee and the State Council, and strengthened the macroeconomic control and management in the course of continually implementing the principles of invigorating the domestic economy and opening up to the outside world, thus solving some dislocation problems in economic development, scoring remarkable achievements, and enabling the national economy as a whole to develop toward sound orientation. Generally speaking, implementation of the 1985 plan was very good, and most targets set by the third session of the Sixth Provincial People's Congress in 1985 were fulfilled or overfulfilled. The rural economy developed comprehensively. In 1985, the total social product of the rural areas amounted to 56.03 billion yuan, up 12.9 percent over the previous year. Grain output was planned at 30 million tons, but actually reached 31.375 million tons, or 975,000 tons more than the previous year. Cotton output was planned at 1.12 million tons, but actually reached 1.062 million tons, or 663,000 tons less than the previous year, being put under control basically in line with the plan. Peanut output was planned at 2.25 million tons, but actually reached 2.621 million tons, or 821,500 tons more than the previous year. The output of flue-cured tobacco was planned at 180,000 tons, but actually reached 287,000 tons, or 107,000 tons more than the planned figure. The total output value of the rural industry amounted to 13.8 billion yuan, a 40-percent increase over the previous year. Township and village enterprises had a total employment of 6.5 million workers, accounting for 22 percent of the rural labor force, and becoming the pillar of the rural economy. The overly high growth rate of industrial production was upt under control, and economic efficiency was raised somewhat. The total industrial output value in 1985 was 54.06 billion yuan, up 18.5 percent over the previous year. Of this, the output value of light industry increased by 18.4 percent. Substantial increases were made in the output of energy resources, major raw materials, machine tools, electric products, and durable consumer goods. The total output value of state-run industrial enterprises covered by the budget increased by 13.4 percent over the previous year; income from sales of these enterprises increased by 19.8 percent; profits earned and tax turned over by these enterprises increased by 25.8 percent; and the economic efficiency of these enterprises increased by a margin larger than the industrial growth rate. The investment in the fixed assets at 2.65 billion yuan, but the real investment came to 2.48 billion yuan, being controlled under the state-assigned plan. The tasks for the 11 key construction projects of the province were all overfulfilled. The newly added major production capacity of the province was: 440,000 tons of coal; 6 million tons of crude oil; 312,000 kw of installed capacity of generating units; 315 km of new railways; and 211.5 million tons of port handling capacity. The urban and rural markets were brisk, and the economic relations with foreign countries and foreign trade were further expanded. The plan called for increasing the 1985 retail sales by 10.5 percent over the previous year, but actually it reached 27.19 billion yuan, an increase of 15.5 percent over the previous year. Among the total retail sales, retail sales of consumer goods increased by 19.2 percent; the urban and rural country fair trade expanded continually; and the commodity transaction volume reached 4.39 billion yuan, up 26.8 percent over the previous year. In terms of foreign trade, the total value of commodities procured for export in 1985 amounted to 4.88 billion yuan, up 32.6 percent over the previous year, while the plan called for a 15.5-percent increase in this regard. Relatively big increases were made in the export volume of grain, livestock products, local and special products, light and textile industrial products, chemical industrial products, hardware products, and mineral products. A 10-percent increase was planned for the total value of foreign exchange earned by exports, but the province actually earned $2.66 billion, a 16.5-percent increase over the 1984 figure. In 1985, the province signed new contracts for 237 items of joint-venture and cooperative business and actually spent $63.75 million, a 2.9-time increase over the 1984 figure. Financial revenues greatly increased and a balance between revenues and spendings was maintained in the year. The final account of the provincial financial revenues reached 6.753 billion yuan, a 22.55-percent increase over the 1984 figure calculated in term of comparable items, surpassing the increase scored by the industrial and agricultural production. Financial spendings reached 5.658 billion yuan, (including the 528 million yuan of special funds transferred to 1986). Of these spendings, those covered by the budget reached 4.045 billion yuan, a 26.8-percent increase over the 1984 figure calculated in term of comparable items. According to unified statistics, the province maintained a balance between revenues and spendings and had 179 million yuan of surplus.

Under the new situation in which the drive to conduct reforms and to enforce the policy of opening to the outside in order to enliven the domestic economy has been carried out, the undertakings of science and technology, education, culture, public health, physical culture and sports, journalism, publication, and radio and television broadcasting have achieved greater development. The province scored 1,196 items of major scientific research results, an increase of 199 items over the 1984 figure. Of these results, 41 reached the world advanced standards and 566 reached the national advanced standards. All of these have promoted the progress in the national economy and technology. The provincial general higher educational institutions enrolled 23,500 students, an increase of more than 5,000 over the 1984 figure.

The fulfillment of the 1985 plan has laid a solid foundation for smoothly fulfilling the Seventh 5-Year Plan. However, in implementing the 1985 plan, there were still prominent problems that should be dealt with as follows: 1) Since the fourth quarter of 1985, the increase rate of industrial production has shown a very sharp drop, and some new restrictive factors have cropped up in economic development. 2) The scope of investment in fixed assets in the society was still on the larger side because of the excess channels of investment, the inadequate managerial system, and the failure of bringing many projects into line with the plan although the measures were adopted to bring under control the investment in fixed assets. 3) Funds needed by production and construction were more strained. In particular, circulating funds still could not satisfy the regular demands of enterprises. 4) The administrative expenses and the social institutional consumption showed an excessively rapid increase. Some organs, enterprises, establishments, and units committed serious malpractices of spending money arbitrarily and indulging in extravagance and waste. All of these problems should be earnestly dealt with in formulating the 1986 plan.

## 2. The Main Tasks and Targets of the 1986 Plan

The year 1986 is the first year in implementing the Seventh 5-Year Plan. Making a realistic success in economic work this year has a vital bearing on successfully fulifilling the targets set forth by the Seventh 5-Year Plan. In line with the demand set forth by the central authorities with regard to bringing under control the social general demands in the first 2 years of the Seventh 5-Year Plan period and dealing with the excessively large scope of investment in fixed assets and the excessive increase of consumer funds, we should not only continuously enhance macroeconomic control, but also pay special attention to improving macroeconomic control in making arrangements for the 1986 plan. We should not only curtail the demands, but also improve the supply in order to further enliven production. We should not only lower the ultra high production speed, but also maintain a certain speed of increase on the basis of stressing economic results. We will place our work empahsis on grasping reforms, management, and technical progress, and increasing economic results in an overall way in order to enable economic and social undertakings to achieve overall development. Efforts should be made to continuously enhance the foundation of agriculture and to vigorously develop consumer goods and the production of energy resources and raw materials that serve the consumer goods. A good job should be done in making arrangements for the urban and rural markets and in maintaining the basic stability of market prices. We should further do a good job in conducting the work of increasing financial revenues and curtailing spendings, particularly in bringing under strict control the scope of capital construction. Efforts should be made to continuously enhance the undertakings of education, science and technology, culture, public health, and physical culture and sports, and to enhance the building of socialist spiritual civilization. On the basis of developing production, the arrangements in the plan for improving the people's material and cultural lives are as follows:

The total product of society will reach 116.3 billion yuan, a 7.9-percent increase over last year. The increase in the industrial and agricultural output value will be 8.2 percent.

The agricultural output value will reach 28.76 billion yuan, an increase of 4 percent over last year.

The industrial output value will be 68 billion yuan, a 10-percent increase over last year. The increase of light industry will be 12 percent, that of heavy industry 8 percent, and that of rural industries more than 19 percent.

The national income will reach 59.85 billion yuan calculated in terms of the 1985 prices, showing an increase of 7.8 percent over last year.

The accumulation rate will decline from 32.5 percent in 1985 to 30 percent.

The total investment in the fixed assets of local state-owned enterprises will be 2.74 billion yuan, of which that in capital construction will be 97 million yuan, basically the same as the planned quota of early last year; and that in technical transformation 1.309 billion yuan, slightly higher than the planned quota of last year. Other fixed asset investment will also be included in the plan for management, and the planned quota of this year is 450 million yuan.

The revenue will be 7.418 billion yuan, an increase of 8.9 percent over last year calculated in terms of comparable standards.

The total volume of commodity retail sales will be 31.5 billion yuan, a 15.9-percent increase over last year.

The total value of the commodities purchased for export will be 5.08 billion yuan, 4.1 percent more than in last year; and foreign exchange earned from commodity exports will be $2.696 billion, 1.2 percent more than in last year.

New enrollments for regular or special courses in ordinary colleges and universities under the province will total 22,000 and the total number of students studying at these colleges and universities will reach 65,000, 6.21 more than in last year. New enrollments of secondary vocational and technical schools total 122,000, 15,700 more than in last year; and the number of students studying at these schools will reach 277,000, 60,000 more than in last year.

The average monetary wage of staff members and workers will be 7 percent higher than in last year, and the per-capita net income of peasants is estimated to increase by about 4 percent over last year.

3. Several Tasks That Should Be Focused on in Implementing This Year's Plan

In order to attain the fighting goals defined in the 1986 plan, we should focus on the following work when implementing the plan.

1) We should strive to maintain a stable economic growth. A certain economic growth rate is necessary in order to maintain market and financial balance, and develop the excellent situation. According to the arrangements of the plan, the industrial growth rate is 10 percent. When doing our work, we should strive to exceed it on the premise of improved quality and economic results.

We should continue to readjust the production structure and product mix in line with market demands, give prominence to the production of consumer goods and, in particular, conduct organization for increasing the production of quality brand-name products, high-grade durable consumer goods, and other readily marketable goods. To maintain a higher growth rate in light and textile industries, the province will give priorities to them in the use of loans and foreign exchange, the supply of energy resources and raw materials, and transport facilities. At the same time, all cities, prefectures, and departments are urged to adopt corresponding measures to produce more products urgently demanded by markets. Budgetary investment in technical transformation should be used chiefly in developing the products which are scarce in markets, need little investment and yield faster results, and are export-oriented products. The supply of energy resources, raw materials, and investment to the products which are of low quality but are highly prices, and those which find no market should be restricted and readjusted. Meanwhile, we should increase energy and raw material production to satisfy the needs in consumer goods production and other fields. We should handle the relationship between growth rate and economic benefit more successfully, continue to give prominence to improvement of economic results, maintain a stable economic growth, a stable increase in taxes and profits, and a balance in revenue and expenditure through improved economic results, and achieve a simultaneous increase in industrial production, profits and taxes, and revenue. We should emphasize the three links of improving quality, reducing consumption, and increasing production and income, strengthen control over the plan for economic results, and work out and improve economic result plans at different levels so that the plans for production, construction, and circulation and those for economic results can be combined, implemented at the grassroots levels, and evaluated and inspected at regular intervals.

2) We should further strengthen the agricultural foundation. It is necessary to conscientiously implement the guidelines of the central document No 1 and consider the work of implementing policies, carrying out in-depth reforms, relying on scientific progress to improve conditions for agricultural production, organizing services throughout the course of production, and promoting sustained, steady, and coordinated development in the rural economy as the major points for developing this year's rural economy. In line with the policy of "not relaxing crop cultivation while diversifying the economy," we should steadily readjust the rural production setups, continue to grasp grain production, stabilize the grain farming acreage, improve the quality of crops and the per-unit area yield, and ensure a steady increase in the total grain output. Under the plan, this year's grain sowing acreage will be 8 million hectares and the total output will be 31 million tons. In order to encourage grain production, beginning this year, we will readjust and reduce the base figure for contract purchases in line with the state stipulations so that the

grain growers will receive more benefits from the increase in production. In cotton production, we should stabilize the farming acreage, improve quality, and avoid the drastic increasing and reducing of farming areas. We should pay attention to solving the problems of forcing down the quality and prices in the course of cotton purchases so as to protect the enthusiasm of the cotton growers. Under the plan, the cotton output will reach 1.12 million tons, maintaining the level of last year's plan. In accordance with the needs reach 1.12 million tons, maintaining the level of last year's plan. In accordance with the needs of the domestic markets and export, we should properly expand the production of peanuts and their sowing acreage should be 1 million hectares, and the total output should be 2.5 million tons. We should continue to control the production of flue-cured tobacco and maintain the output and purchasing volume at last year's planned levels. This year, the output of bluish dogbane should be controlled at about 150,000 tons. Strenuous efforts should be made to develop fruit, animal husbandry, and aquatic products industries, further implement the production responsibility system in forestry, support and develop forestry specialized households, and strive to afforest 133,000 hectares of land and produce 2 million tons of fruits. We should continue to grasp the production, construction, and supply in the urban, industrial, and mining areas and in the vegetable and nonstaple food bases, and stabilize the prices in order to reassure the public.

Investment in the agricultural sector should be gradually increased. Under this year's plan, the state and the province should properly increase investment in the agricultural sector which should be mainly used for supporting the building of agricultural and commodities bases and the scientific and technological service units, and establish the grain, cotton, peanuts, fruits, aquatic products, lean-meat hogs and garlic producing bases as well as other commercial bases in various periods and groups. Under the arrangements, the five major county-level service centers, including agriculture, forestry, animal husbandry, fishery, and machinery, and the cotton technological service centers should also be built. Meanwhile, we will increase investment in the agricultural institutions of higher learning and agricultural secondary vocational schools. In increasing the agricultural input, first we should rely on the state, and the active support should be given to agriculture by all trades and professions. Second, we should rely on the accumulations from the agricultural sector. Along with the improvements in the financial situation, the agricultural investment from the local overall plan and the provincial financial resources will be gradually increased. However, the source of the increased agricultural investment will be mainly the accumulation of the rural areas because of the limited amount of funds from the financial departments. We should gradually establish the necessary labor accumulation system, improve the measures for cooperatively running farmland water conservancy projects under the principle of mutual aid and benefits, encourage the cooperative economic organizations in various localities to appropriately retain public accumulation from the yearly income, establish the depreciation system of fixed assets, and raise the development ability of the agricultural sector. It is necessary to strengthen agricultural scientific research, and grasp well the popularization and application of agricultural scientific and technological findings, grasp a number of technological development projects covered in the "spark plan" that require a small investment, yield great benefits, and can display their role in the near future, and depend on the scientific and technological forces to promote the steady development in agriculture. The principle of actively supporting the township enterprises, working out rational plans for them, giving them guidance and strengthening management over them should be conscientiously implemented in order to speed up the development of township enterprises. We should continue to vigorously support economic development in the poverty-stricken areas.

3) We should control the investment in fixed assets and ensure the smooth progress of the construction of key projects. Strictly controlling the investment in fixed assets, capital construction in particular, is a major and crucial issue which affects the overall economic situation and bears on the successful fulfillment of the Seventh 5-Year Plan. To actually control the scale of investment and ensure the construction of key projects, this year we should attend to the following aspects of work: First, we should further strengthen and improve the management plan for the investment in fixed assets. The overly large scale of investment in fixed assets during the past few years has mainly resulted from the serious expansion of investment in extra-budgetary projects. This year, in the course of strengthening the macroeconomic control, we should emphatically strengthen the plans and management of investments in fixed assets and gradually study and draw up a set of feasible management methods on the basis of attending to the overall balancing. We should maange well not only the state-owned units, but also the collective- and individual-owned units. We should manage well not only the capital construction, but also the technical transformations. Second, we should strengthen the management of procedures of capital construction. Those projects which are incorporated into the fiscal construction plan must be built in line with the state-stipulated procedures and steps, and those projects with incomplete procedures must not be listed in the plan. To raise economic efficiency, beginning from this year, we must conduct feasibility study and advisory appraisals for construction projects. Third, we should further readjust the investment structure. We should curtail investment in general non-productive construction projects. increase investment in scientific and technological undertakings, if necessary, and appropriately arrange for the construction of residences and urban public utilizites. In construction of productive projects, we should cut down the number of the general processing industrial projects, and strengthen the construction of agriculture, energy resources, communications, and key raw materials projects; should control the production of products which are in excessive supply, and develop the production of products which are in short supply; and should increase the investment in the better-quality and brand-name products, the readily marketable products, and the products which can be exported and earn foreign exchange. The technical transformation investment should mainly be used to improve the quality of products, lower the consumption of materials, upgrade and update old products, and develop new products. The technical transformation investment should also be used to renovate those key enterprises which have a bearing on the national economy and people's livelihood, and those enterprises which produce export commodities. Fourth, we should continue to concentrate our financial and material resources on ensuring the construction of key projects. In addition to conscientiously grasping the key projects which are built on our province in line with the arrangement of the central authorities, we must actually grasp those large and medium-sized

projects which are built by localities independently or are jointly built by the localities and the central authorities. In utilization of manpower and financial and material resources, we should first ensure the demands of key construction projects. At the same time, we should follow the spirit of "acting according to one's ability, doing everything in one's power, and working hard in coordination," should adopt proper policies, and should raise necessary construction funds in order to satisfy the demands of the key construction funds in order to satisfy the demands of the key construction projects.

4) We should try every possible means to expand export and earn more foreign exchange. Last year, the province's foreign trade was relatively good. However, owing to the worldwide drop in petroleum prices, the foreign exchange from petroleum export will witness a relatively big reduction, and therefore it it will be very arduous to fulfill this year's export plan. To expand export and earn more foreign exchange, we should attend to the work in the following aspects: First, we should emphatically grasp the export of the province's superior agricultural and sideline products. We should actually solve the problems in production, technology, and circulation, develop production and export coordinatedly, and try our best to expand export. Second, we should select a number of good enterprises, incorporate them into the plans for carrying out special technical transformation projects, and conduct renovation projects among these enterprises on a priority basis. At the same time, we should give supports to those enterprises whose products are earmarked for export and to those subsidiary projects which serve the export in the fields of fund, materials and power supply, and distribution of foreign exchange in order to enhance their ability to expand export and earn more foreign exchange. Third, we should continue to encourage export, give due profits to those localities and units which export more products and earn more foreign exchange, and connect export and foreign exchange with economic benefit.

While trying all possible means to expand exports and earn more foreign exchange, we should also try to increase nontrade foreign exchange earnings. We should greatly develop tourism, make the best use of and explore our tourist resources, strengthen the planning and construction of the infrastructure for tourism, enhance the competence of tourist contingents, do a good job in the development and production of tourist products, and gradually make our tourist income an important source of our province's foreign exchange earnings. We should strive to expand the exports of labor service and technology to substantially increase our foreign exchange earned from such exports.

5) We should further grasp reform well. On the basis of the actual conditions of our province, in line with the implementation of the plan for national economic and social development, and giving consideration to planning work, we should focus on three aspects: First, we should strengthen and improve the macroeconomic control and management. While continuing the policy of reducing the overall expenses, we should shift our work focus to improving the macroeconomic control. We should successfully bring under control the quotas for fixed asset investment, credit, consumption funds and foreign exchange utilization, and other major quotas which have a bearing on the overall economic situation, coordinate the overall supply and demand,

and actively do a good job in regulating and improve the economic structure. We should rationalize the orientation of the investment, foreign exchange, loan and material utilization within the framework of the state-defined plan, and use the economic levers to make the policies on production and technology, economic arrangements, and enterprise scale more rational. We should strengthen the macroeconomic forecast, gradually reinforce the planned management of the overall targets and value targets of entire society, and intensify the estimation and planning for the scale of fixed asset investment, extra-budgetary funds, material resources of entire society, and other overall targets in order to provide data for macroeconomic policymaking. Second, we should work out plans to support the invigoration of enterprises, especially large and medium-sized ones. Beginning this year, the province has delegated the power of major material distribution and supply to cities and prefectures according to their administrative relations. When supplying materials to large and medium-sized enterprises, they should reduce intermediate links, and achieve direct supply. At the key enterprises that undertake the production of important means of production, we should carry out the policy under which the enterprises turn over their products to higher authorities according to progressively increased fixed quota, and fixed quotas, and retain themselves the above-quota portion, and allow these enterprises a certain flexibility so as to boost their enthusiasm for increasing production. The state has decided to reduce the regulatory taxes for some large and medium-sized enterprises, and increase some depreciation funds to be used in the technical transformation of enterprises. We should conscientiously follow the guidelines of the State Council's recent circular on strictly banning collection of unwarranted fees from enterprises, and, without the approval of the provincial government, no locality or department is allowed to collect fees from enterprises forcibly. Third, we should greatly expand lateral economic cooperation. Earnestly implementing the State Council's "Several Regulations on Further Promoting Lateral Cooperation," we should break with the closed pattern of cooperation, adhere to the principle of "making the best possible use of favorable conditions, adopting various forms, and achieving mutual benefit and simultaneous development," eliminate the bounds of regions, departments and trades and, proceeding from the most urgent needs in the economic development, actively spur and lead enterprises to carry out various forms of lateral cooperation. No department and locality are permitted to set obstacles to the lateral cooperation among enterprises in order to seek their own interests. At the same time, we should strengthen the macroeconomic guidance and avoid blind acts to make the cooperation suit the needs of the state's macroeconomic development. In addition to the cooperation among enterprises, we should also pay attention to the economic and technological association and cooperation between our province and other provinces and municipalities, among the cities and prefectures of our province, and between eastern and western areas, and the support of Jinan, Qingdao, and other cities to some poor localities. With regard to lateral economic cooperation, we should adopt supportive policies, improve planning and material management and accounting methods correspondingly, give conveniences to economic cooperation organizations in the amount of the fixed asset investment, the supply of raw materials, and the marketing of production, support the lateral movement of funds, and grant proper preferential treatment in tax payment. All functional departments should support lateral cooperation from all fields, and, through it, accelerate technological progress, improve social economic benefit, and promote reform.

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## OFFICIAL REPORTS ON TIANJIN ECONOMIC, SOCIAL DEVELOPMENT PLAN

SK160426 Tianjin TIANJIN RIBAO in Chinese 26 May 86 p 2

["Excerpts" of report on Tianjin Municipality's 1986 draft plan for national economic and social development delivered by Han Enjia, director of the Tianjin Municipal Planning Commission, at the 5th session of the 10th Tianjin Municipal People's Congress--date not given]

[Text] 1. Fulfillment of the 1985 Plan for National Economic and Social Development

Our municipality's 1985 national economic and social development plan was fulfilled successfully, the economic structural reform with the urban reform as the focus achieved an important step forward, the national economy was developed in a stable and coordinated manner, new achievements were scored in social development, and the various tasks and major targets were fulfilled or overfulfilled. The GNP reached 16.86 billion yuan, the national income 13.9 billion yuan, and the industrial and agricultural output value 32.704 billion yuan, an increase of 14.3, 14.2, and 15.1 percent, respectively, over the previous year.

1. Industrial and agricultural production was developed in a stable and coordinated manner, and economic results improved. The annual industrial output value totaled 28.56 billion yuan, an increase of 12.4 percent over the previous year. The growth rate of both the income from sales and of the profits and taxes of local budgetary state industrial enterprises exceeded that of production.

2. An overall good harvest was reaped in agriculture, and new development was achieved in the rural commodity economy. The agricultural output value (including villagerun industries) totaled 4.144 billion yuan, 38.5 percent over the previous year. The commodity rate of the rural economy rose from 68.7 percent in the previous year to 71.5 percent.

3. The revenue increased substantially. The revenue of the year totaled 4.41 billion yuan, 14.1 percent over the annual budget, and 21.2 percent over the previous year. This plus the 180 million yuan of urban maintenance funds and construction taxes made the total 4.59 billion yuan.

4. Capital construction and technical transformation were further strengthened, and the construction of key projects was accelerated. The local fixed asset investment to be appraised and approved by the municipality totaled 3.68 billion yuan, less than the planned quota of 3.8 billion yuan. By the end of the year, the tasks for after-quake reconstruction had been basically fulfilled. A group of energy, transport, post and telecommunications, and urban infrastructural projects, key projects, which had a bearing on the people's lives, and major technical transformation projects were completed.

5. New progress was made in opening to the outside world. The value of export from the foreign trade harbor totaled $1.153 billion, 11.4 percent over the annual plan. The infrastructure for the first area of the economic and technological development zone was built in its initial shape, and by the [word indistinct] the year contracts for 21 foreign-oriented projects, mainly industrial, had been signed.

6. Notable achievements were scored in science and technology, education, public health, and culture. Throughout the municipality, 250 major scientific and technological research results were achieved, of which 9 won the state invention award. The practice of attaching importance to and supporting education began to take shape in the entire society. Primary and middle schools improved their school facilities and instruction quality. The secondary education was restructured. Hospital beds increased by 1,285 throughout the municipality. Population rate declined from 15.69 per thousand in the previous year to 13.98 per thousand. Cultural, sports, press, publication, radio, and television undertakings achieved new progress, and played a positive role in building the socialist spiritual civilization.

7. Urban and rural people's living standards continued to improve. The 20 major things developed by the municipal government with a view to improve the people's living standards were all completed. The annual per-capita income for living expenses of urban residents showed a 21-percent increase over the previous year. When allowing for price factors, the actual increase was 6.9 percent. The annual per-capita net income of peasants reached 564.6 yuan, 11.8 percent more than in the previous year. Markets were brisk. The total volume of retail commodity sales was 6.895 billion yuan, 21.8 percent greater than in the previous year. The year-end savings deposits of urban and rural residents increased by 32.4 percent over the previous year.

In line with the unified arrangement of the central authorities, the pricing reform and the wage reform were initiated very smoothly. After relaxing the control over the prices of foodstuffs, production of agricultural and sideline products increased, and markets became brisk. Through reform, the wage system of the state organs and institutions embarked on the right course. Enterprises carried out the wage reform in a coordinated manner, thus preparing for further reforms.

Centering on invigorating enterprises, the planning system was improved, and the proportion of output value of the products covered by the mandatory planning dropped from 70 percent to 30 percent. Lateral economic ties were strengthened, and various forms of economic and technological associations and cooperations were established. In the course of allowing flexibility in the microeconomy, we strengthened macroeconomic control, and strengthened macroeconomic control, and strengthened the regulation and harmony among the investment in the local fixed assets, the credit fund, the consumption fund, and the utilization of foreign exchange for import in line with the state stipulation. In this regard, we did not surpass the control target of the state, but ensured the needs of the production and construction.

The above-mentioned facts show that our municipality's economic situation has actually been very good. However, some problems still exist in the economic development. They are mainly:

1) The production and product structure fall short of the demands of the changes of the domestic and international markets. 2) The ability to earn foreign exchange through export is low, the export value via ports still cannot make a break with the successive years of decline, and the foreign exchange through export has increased by a margin smaller than the industry and agriculture. 3) The basic work and the basic links are weak, management level is low, and the situation of poor quality, high consumption, and serious waste exist in some production, construction, and institutional departments. 4) There still are strains on energy resources, raw materials, foreign exchange, and funds, and the work of broadening sources of income and reducing expenditure has lagged behind the demand. In addition, under the situation of replacing the old economic structure with the new one, our ideology is unsuitable for our work. Even though the new financial systems, have been implemented, we have not yet gotten rid of the habit of "eating from the big pot" of the state.

2. Major tasks and goals of the 1986 draft plan for national economic and social development.

The major tasks of the 1986 plan for the municipal economic and social development are as follows: We should continue to implement the general principles of invigorating the domestic economy, and opening up to the outside world; adhere to the economic structural reform focusing on invigorating enterprises; actively develop the lateral economic integrations; consolidate, digest, supplement, and improve the reform measures which have already been initiated; and strengthen and improve the macroeconomic control. We should continue to readjust the production and product structure, strive to increase production of products which are readily marketable, vigorously develop exports, and maintain an appropriate economic growth rate on the basis of stressing on efficiency. We should strengthen the construction of key projects and technical transformations on the premise of controlling the scale of investment. We should continue to improve the people's living standards on the basis of developing production. We should strive to step up the building of spiritual civilization in the course of grasping the building of material civilization.

The major targets of the draft plan for 1986 are as follows:

The GNP is planned at 18.21 billion yuan, an 8-percent increase over the previous year. The total industrial output value is planned at 34.749 billion yuan, a 6.3-percent increase. The scale of investment in fixed assets rectified by the municipality is controlled within 3.8 billion yuan. The value of export via foreign trade ports is planned at $1.116 billion, of which, the value of export by the municipality is planned at $730 million. Financial revenues are planned at 5.171 billion yuan, a 6.16-percent increase over the previous year in terms of the comparable items.

The concrete demands of the 1986 plan are as follows:

1. Efforts should be made to continuously readjust production and product structures and to increase economic results in order to maintain stable and harmonious development in production.

a. Industry. A good job should be done in continuously readjusting professional and product structures and maintaining an adequate rate of increase on the premise of upgrading product quality and stressing benefit. The plan sets forth a 6 percent increase in total industrial output value this year. Of this increase, those in light industry will reach a 6.5 percent increase, and those in heavy industry will reach a 5.4 percent increase.

In readjusting the product structure of the industry, first of all, we should continuously develop the products in short supply and vigorously turn out daily consumer goods and export commodities enjoying brisk sales and with fine quality and famous trade mark, as well as the products badly needed by the domestic markets and with high benefits. The rate of increase among 200 short-supply products covered by the municipal plan will reach a 10 percent increase. We should give preferential treatment to the production of these commodities in power supply, raw material, funds, foreign exchanges, labor forces, and transport means. Products of high costs, poor quality, low benefits, and of slow sales should be restricted or even be suspended and transferred in production. Efforts should be made to vigorously conduct the winding-up work among the well-built capital construction projects, the technical renovation results, and the imported technological items in order to put them into production and to reach the designed output targets. A good job should be also done in grasping production among the key enterprises that have paid and earned high taxes and profits.

In order to maintain steady, stable, and harmonious development in industrial production, and in line with the demand set forth by the Seventh 5-Year industrial readjustment plan, we should achieve a combination among readjustment, reorganization, technical import, and technical renovations in order to make a good start and to strive to achieve preliminary results this year and to achieve great results in the upcoming 3 years. In line with the industrial readjustment, efforts should be made to develop lateral economic ties among the enterprises and to organize specialized and socialized large-scale production in specific regions or with networks throughout the country. We should adopt various ways and means to develop cooperation and coordination and develop the production of energy resources, raw materials, fine-quality and famous products, and export commodities in order to gradually set up a number of associations of enterprises. Efforts should be made to integrate the spread of products and machine parts with the consolidation of township-and-town-run industries in order to bring into full play the role of these industries in being assistants to the major industries.

Efforts should be made to enhance industrial and enterprise management and to establish economic responsibility systems and the system of ensuring quality at all levels. A good job should be done in grasping the basic work of enterprise management; improving the system of supervising and testing quality, the measures of maintaining and surveying quality standard, and the responsibility systems; and in organizing production strictly in line with the standard in order to vigorously upgrade the quality and function of products, to expand sales, and to reduce the overstock of commodities.

b. Agriculture. Efforts should be made to continuously implement the principle of "serving urban areas and making peasants wealthy"; to uphold the guideline of achieving development in an overall way among agriculture, forestry, animal husbandry, sideline production, and fishery, and of engaging in comprehensive operation among agriculture, industry, commerce, construction business, and transport units; and to readjust the structure of the agricultural economy in order to accelerate the pace of developing commodity economy in rural areas. The plan sets forth an 8 percent increase in the total agricultural output value. While stabilizing the acreage of farmland and by no means relaxing grain production, efforts should be made to vigorously develop nonstaple foodstuffs and export commodities in agricultural production, and particularly to grasp well the production of vegetables and aquatic products. In fishery, efforts should be made to develop fishing operations and raising fresh water fishes simultaneously, to increase the strength of fishing activities, and to actively develop fish raising. We should also actively develop lean-meat logs. Efforts should be made to vigorously plant trees, to do a good job in rendering service before or after production, and to actively import advanced technology in order to breed fine saplings and to coordinate the basic construction of fodder production and plant disease and pest prevention and control. A good job should be done in preventing flood and combating drought and in enhancing the construction of irrigation and water conservancy. Efforts should be made to realistically conduct the work of helping poor households and help the poor villages remove their poor status within the year.

C. The tertiary industry should be vigorously developed, with an emphasis on commercial, transport, posts and telecommunications, and service industries, and the functions of cities should be gradually enhanced. We should strengthen the attraction and radiation of the central cities, gradually establish and improve various trade centers and markets for means of production, and continue to readjust and increase the number of commercial networks in order to make things convenient for the people's livelihood. The efficiency of communications and transport should be improved and the handling capacity of ports should be increased. Efforts should be made to expand telecommunications business. Under the plan, the local telephone lines should reach 116,000, an increase of 23,000 lines over the previous year. We should also vigorously develop information, consulting, banking, insurance, and tourist undertakings.

2. Under the premise of exerting continued efforts to control the scope of investment, we should readjust the investment structure and speed up the construction of key projects.

This year, the scope of local investment in fixed assets assessed by the municipality should be controlled within 3.8 billion yuan, maintaining the level of last year's plan. It is necessary to rationally readjust the investment structure, reduce and strictly control investment in capital [word indistinct], and appropriately increase investment in technological transformation. This year's orientation of investment in capital construction and technological transformation should be: 1) Investment in supporting energy, transport, communications, and raw materials projects and in strengthening the "three capital construction" projects; 2) In building infrastructure projects for improving the functions of cities; 3) In badly needed educational, scientific, technological, and public health projects; and 4) In projects conducive to opening up new financial resources, increasing exports and foreign exchange, and speeding up domesticization.

3. We should strive to increase exports, and further expand foreign economic relations and trade, and technological exchange.

In 1986, a new breakthrough should be made in foreign trade and export and utilization of foreign funds.

In foreign trade export, the state has assigned our municipality to export goods worth $1.116 billion through ports. We should strive to attain the figure of $1.2 billion in order to exceed last year's actual level. Under the plan, our municipality export commodity purchase should be valued at 2.658 billion yuan and efforts should be made to exceed such figure.

We should continue to improve the construction of the developing areas, create a good environment for investment, and speed up the building of projects under construction so that they can go into production soon.

4. We should improve supply and make proper arrangements for the people's livelihood.

In 1986, the state-assigned total volume of wages will increase by 8.46 percent over the previous year. It is anticipated that the net income of peasants will increase 10 percent over the previous year.

In order to cope with the improvements in the livelihood of the urban and rural people, we should make good arrangements for markets and improve supply. Under the plan, the retail sales of commodities will reach 7.585 billion yuan, up 10 percent over the previous year. We should arrange for the production of small commodities and give priority to ensuring domestic market supply of industrial goods. Commercial departments should actively organize the supply of goods, improve operation, expand sales, and increase with withdrawal of currency.

The price reform measures should be further improved and be basically stabilized. In the course of stabilizing the prices of nonstaple foodstuffs, we should attend to the prices of vegetables, eggs, and meat. Vegetable prices are the most important, therefore, we should strive to stabilize them at last year's level. We should strengthen management over trade markets and self-employed traders and strictly deal with those who raise the commodity prices.

5. We should further develop the scientific, educational, cultural, and public health undertakings, and strengthen the building of socialist spiritual civilization.

In grasping education, we should begin with the basic links and the primary and middle school education. Meanwhile, we should pay attention to preschool education, actively popularize the 9-year compulsory education, and gradually solve the problem of the two-shift system of primary schools. We should continue to readjust the secondary educational structure, and actively develop the technical and professional education. We should strengthen the training of teachers of primary and middle schools. Higher learning institutions should enroll students according to their reasonable capacity. Such institutions plan to enroll 11,679 students, of whom, 5,834 will be enrolled by the local universities and colleges, a 6.1-percent increase over the previous year. We should continue to run various forms of adult education.

In terms of science and technology, we should emphatically grasp the popularization and application of 200 scientific research achievements. We should accelerate the implementation of the "spark" plan, strengthen the digestion, application, and further development of the imported technologies, and speed up the process of domesticization. We should actively broaden the sphere of burgeoning technologies, and attend to the reserve of new technologies. We should continue to improve the scientific and technological markets, and attend to technological exchange and transfer.

In terms of public health undertakings, we should continue to implement the principle of putting prevention first. We should readjust and develop the specialized hospitals of the municipality in a planned manner, exploit the municipality's superiority in traditional Chinese and Western medical sciences, and strive to gradually build the municipal-level hospitals into a medical network with respective characteristics, strong professional nature, and high medical standards. At the same time, we should strengthen medical prevention and curing facilities at the grassroots level, and gradually form a three-level medical treatment and prevention system. It is planned that the number of hospital beds will be increased by 1,200, which will make the total number reach 26,400. At the same time, we should actively develop family sick beds. We should continue to grasp the family planning work. The birthrate should be controlled under 17 per thousand; and the population growth rate, 11 per thousand.

In terms of cultural, art, film, television, broadcasting, press, and sports undertakings, we should strive to raise the political levels and the quality of art, should stress on the social benefit, should disseminate scientific and general knowledge, should enrich the people's cultural life, and should strengthen the building of socialist spiritual civilization.

To develop the cultural, educational, and public health undertakings, this year, the municipality will provide 582 million yuan of appropriations for the cultural and educational undertakings, a 20.54 percent increase over the previous year, higher than the growth rate of the municipal revenues and expenditures. To solve the housing problem of the cultural, educational, and public health departments, the municipal investment in building dormitories and the appropriations from the cultural and educational fund for building dormitories will increase by 35 percent over the previous year.

6. We should broaden the sources of income and reduce expenditure, ensure the construction of key projects, and attend to the supply of power and materials.

This year, the state will distribute fewer "three major materials" and chemical industrial materials to our municipality, thus greatly adding to the burden of the localities and enterprises in raising raw materials. The fundamental measure for solving the shortage of materials is to broaden the sources of income and reduce expenditure.

To relieve the shortage of power supply, the municipality plans to depend on all professions and trades to vigorously economize on power consumption, to encourage all enterprises, workshops, teams, and groups to curtail power consumption, and to link awards with punishments, by giving more bonuses to those which conserve more power resources, and giving punishment to those which consume excessive power. In addition, the municipality will buy high-price oil to generate power [mai gao jia you fa dian 6314 7559 0116 3111 4099 7193], encourage the power plants run by enterprises to generate more, and accelerate the construction of power plants run by enterprises. We should try every possible means to consume power during a slack period. We should consume electricity in a planned manner, ensure the key projects, and should "ensure power supply but not all the power that the plants may need, and set a power usage quota but not cut off power supply." We should restrict the power consumption of some enterprises which consume much electricity but yield poor results, and should strictly restrict the utilization of those electric stoves, electric heating instruments, and air conditioners which consume much electricity.

3. We should strengthen and improve the control over the macroeconomy and ensure the successful fulfillment of the 1986 plan.

1. We should continue to control the scope of investment in fixed assets and strengthen management over capital construction.

a. We should conscientiously sort out projects under construction and strictly control the initiation of new projects.

b. We should organize the construction of large and medium-sized projects in accordance with rational construction periods.

c. We should establish and improve the system of appraising key projects. The feasibility study reports of the newly initiated large and medium-sized projects must be appraised and examined by the project consulting organs assigned by the state and the municipal CPC Committee.

d. We should actively popularize the bidding contract system, implement the contract system in projects, funds, materials, construction time, and efficiency, and guard against spending money unrestrictedly.

e. We should establish a strict economic responsibility system, examine and accept the projects according to the design requirements, and should not leave problems unresolved. Economic sanctions should be given to those units whose construction quality and efficiency are not up to requirements.

f. We should consolidate and improve the various standards, and quotas for capital construction. The design departments should design according to the specific control targets mentioned in the approved plans. The investment that exceeds the plan by 10 percent should be reported to the authorities for approval in accordance with the regulations. Initiating a project before reporting to the authorities for additional investment is strictly forbidden.

g. We should strengthen control over investment in all fixed assets. New projects carried out by collective units must be examined and approved by the planning commissions at and above the county level. These units should apply for permits from the industrial and commercial administrative departments of the corresponding level. The banks should not issue loans for individual investment.

h. We should audit the locally-raised funds for capital construction.

2. We should strengthen management over consumption funds.

Continued efforts should be made strengthen and improve management over the wage funds for workers, and strictly control the total amount of wages of the state units in line with the state-[word indistinct] Banks should strengthen management over the wage funds in line with the state plan and the relevant regulations. Under the planned scope of the total amount of wages, we should rationally issue bonuses, and [word indistinct] egalitarianism, so that the wages and bonuses will realistically play a role in being given more to those who work more, stimulating production, and rewarding the advanced.

We should vigorously give guidance to peasants in spending their incomes, raise the proportion of funds for developing production and construction, and prevent them from spending excessively. The scope and amount of tax reduction and exemption for collective enterprises and township enterprises should be readjusted and examined and the excessively-high income of the individuals in the urban and rural areas should be properly regulated through taxation. We should continue to strictly control the institutional purchasing power and the administrative expenses.

3. We should strengthen management of funds and circulation.

Strenuous efforts should be made to organize savings deposits, strengthen the management of funds, make good and wise use of credit funds, attend to the circulation of funds, and tap the potential of funds. We should try all possible means to collect savings deposits from the urban and rural areas, increase the number of commissioned businesses, and vigorously increase all kinds of bank savings. We should mobilize enterprises to vigorously tap the potential of funds, reduce the appropriation of funds for producing finished products, and organize forces to withdraw the payment for goods left in arrears. We should fully display the functions of the people's banks in regulating funds and do a good job in dealing with the private loans among banks and the circulation and regulation of funds between banks and the financial departments and between banks and other social quarters.

4. We should strengthen the management of foreign exchange, and do a good job regulating foreign exchange.

a. We should exercise strict control over foreign exchange in line with the foreign exchange targets assigned by the state to our municipality, and should implement the system of different levels managing their foreign exchange with the leaders holding responsibility.

b. In utilizing various items of foreign exchange, priority should be given to ensuring the urgent need of industrial and agricultural production and the need of key construction projects. Then, we should ensure the needs of the scientific, educational, cultural, and public health departments in importing equipment and instruments and in training competent persons. Those raw materials, spare parts, and instruments which can be provided by the country should no longer be imported.

c. Various districts, counties, bureaus, and enterprises should first utilize the private-owned retained portion of foreign exchange. Those enterprises which have the export capacity should make full use of the floating foreign exchange and the foreign exchange which is used to support export.

d. To solve the imbalanced distribution of foreign exchange among various districts, counties, bureaus, and enterprises, we should attend to the redistribution of foreign exchange in strict accordance with the pertinent stipulations.

e. We should strengthen the unified management of the foreign exchange plans. The municipal Planning Commission should assume responsibility for making unified balancing and for distributing foreign exchange. Various districts, counties, and bureaus should also assign special organs and personnel to manage their own foreign exchange in a unified manner.

5. We should continue to improve the planning management system.

In line with the demand of invigorating enterprises, we should grant some leeway to those large and medium-sized enterprises which implement the mandatory planning so that these enterprises can have more decision-making powers and greater vitality for conducting self-development. We should improve the management of the guidance planning, strengthen the study of the economic lever, comprehensively apply the economic means, legal means, and necessary administrative means, and guide enterprises to organize well their production and construction under the condition of macroeconomic control and in line with the demand of the plan for national economic and social development.

Thanks to the efforts of the large number of cadres and the masses of various fronts, the current situation on the municipal economic development has been good since the beginning of this year. So long as we keep sober-minded, make a correct analysis of the current situation, enhance our spirit, reinforce our confidence, adopt effective measures to actually solve problems, strengthen the ideological and political work, conscientiously implement the economic responsibility system, and further mobilize the initiative for the large number of cadres and the masses, we will certainly be able to constantly push forward [word indistinct] and economic construction, successfully accomplish or overfulfill the 1986 plan for national economic and social development, and create a good beginning for the Seventh 5-Year Plan.

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## ECONOMIC PLANNING

### DEVELOPMENT STRATEGY FOR WESTERN REGIONS DISCUSSED

Yinchuan NINGXIA RIBAO in Chinese 10 Oct 85 p 4

[Article by Xia Shiping [1115 0138 5493]: "Issues Concerning Strategy for the Economic Development of Our Western Regions"]

[Text] Our western regions, including the 11 provinces of Shaanxi, Gansu, Ningxia, Qinghai, Xinjiang, Sichuan, Yunnan, Guizhou, Tibet, Inner Mongolia, and Guangxi, are regions rich in resources but economically still not quite developed. To speed up the economic development of these western regions is of very great importance to the realization of the magnificent goals put forward by the 12th Party Congress and the take-off of our economy in the next century. This article makes an attempt at some exploration as to certain primary issues in regard to the strategy for economic development on the basis of the characteristics of these western regions.

#### I. The Economy of Our Western Regions Must Hereafter Have a Speed of Development Higher Than the National Average

Our western regions are areas where nearly 80 percent of our minority nationalities live in compact communities; they share boundaries with more than 10 countries, and they occupy a strategic position politically, and economically as well as in our national defense. Because of historical reasons, these western regions were originally rather backward; since liberation, while they enjoyed speedy development in production and living standards they also underwent considerable improvement, compared to the east the gap not only has not been reduced but has even tended to become broadened. For instance, in terms of average per capita industrial and agricultural output value, in 1949 that of the western regions was slightly higher than the level of the national average; by 1983 it decrease to 63.6 percent of the latter; the average net income of each individual of the farming population in the western regions in 1983 was only 68.7 percent of that of the eastern regions. The minority nationalities of these regions live mostly in remote, hilly areas; the level of their production and living conditions tends to be even lower. In order to gradually eliminate the "de facto inequality" existing between the various nationalities and build our prosperous, wealthy border areas and consolidate our frontier defense, the economy of these western regions must have a speed of development higher than the national average.

The western regions are vast in area; their land area makes up 64.1 percent of the whole country, of which prairie makes up 94.5 of that of the country whereas their population makes up only 28.5 percent of the country. All the country's five great natural grazing areas are here, and in most areas sunshine is abundant, temperature is high for extended periods, and temperature differences are great, all of these being beneficial to plant growth. Certain areas are also timber production bases with exceptionally strong points for the development of large-scale agriculture, especially the development of animal husbandry. In the west energy resources are very rich; coal deposits already explored amount to more than 400 billion tons, making up almost 60 percent of the country's total. Of the five provinces and regions whose explored deposits rank among the first five in the country, the west has four of them--Inner Mongolia, Shaanxi, Guizhou, and Ningxia. Petroleum and natural gas deposits in the west are also very rich. Its hydraulic power resources potential amounts to more than 500 million kilowatts, making up 80 percent of the country's total. In the case of the Huanghe, the section from the Longyang Gorges to the Qingtong Gorges may be exploited by having it divided into 15 terraced levels; the capacity of their fully installed generators may reach 13 million kw. The western regions also have among their mineral resources several dozens of nonferrous metals, rare-earth metals and precious metals which rank among the country's first five; their salt lake resources are unmatched throughout the world. Viewed in long-range terms, these western regions are not only an important base of our energy resources and a treasury of resources in general but also a gigantic moving force for revitalizing China and realizing the four modernizations.

After over 30 years of construction, the economy of the west now possesses the basic conditions for further development. Its industrial fixed assets (in original value) have already reached 130 billion yuan; it has already built a batch of large and medium-sized enterprises of advanced technology which is becoming the core strength spurring on the future economic development of the entire west. While the rate of output value and rate of profit of the fixed assets of these enterprises in the western regions are not high, as they make up only half of those of the east, their potential for production increase and profit increase is nonetheless great. So long as we grasp our structural reform closely, do a good job in their reproduction in terms of intensive expansion, and tap the existing potential of their enterprises, their industrial production and financial revenues are bound to enjoy faster development and growth.

The western regions are a connecting point between the continents of Europe and Asia; many new "silk routes" can be opened up there, great efforts can be made to develop economic and technical cooperation and trade exchange with the Eurasian countries, and our links with, and influence upon, the Middle Eastern and South Asian regions can also be enhanced.

The foregoing situation illustrates that to require a faster speed of development for the economy of the western regions is both necessary and possible. Of course, many constraining factors such as shortages in talents, techologies and capital, inconvenience in communications, slow access to information, and ecological deterioration do still exist in the economic development of the western regions: but so long as we fully implement the various principles and policies formulated by the party Central Committee, keep in line with the actual reality of the western regions, do a good job in planning, and fully mobilize the enthusiasm of the people of the various nationalities, these problems should not be too difficult to solve. What requires our attention is that, while stressing speed, we must at the same time unite this speed with results and strive for the higher speed of development only under the premise of enhancing such economic results.

## II. The Western Regions Should Take Agriculture and Animal Husbandry, Energy Industry, Communications and Transportation Enterprises, and Renovation of Existing Enterprises as Key Areas of Their Construction

Exploitation of the western regions should be placed first of all on the basis of giving scope to their strong points in land resources by handling the planting of grass and trees on a large scale, with the resulting grassland and forests in turn spurring on the development of animal husbandry and promoting the production of foodgrains and economic crops. On the basis of the development of agriculture and animal husbandry, they should energetically develop such processing industries as animal feed, foodstuffs, leather, and textile, and do a good job in the comprehensive utilization of products from agriculture and animal husbandry and their fine processing. This way, the latter would be able in turn to promote the development of agriculture and animal husbandry; the life of the people engaged in agriculture and animal husbandry can thus also become prosperous quickly. Along with the development of agriculture and animal husbandry in the western regions, it becomes possible also to provide the east with even more raw materials, meats and various manufactured products so as to promote the development of light industries in the east and the improvement of the life of people of the whole country. To energetically plant grass and trees in the western regions, build man-made prairies there, and follow the path of ecological animal husbandry cover would also be the most effective methods of protecting the planted groundcover stopping water seepage and land loss, and changing the arid climate, which are beneficial both to the western regions and to the eastern regions situated at the lower drainage areas of the Changjiang and Huanghe. From this, we can see that energetically developing agriculture and animal husbandry in the western regions is of very great significance also to the whole country. For this reason, apart from doing a good job in water conservancy construction, there is need also to realize as soon as possible the three shifts (shift from a self-sufficient economy toward a commodity economy of a larger scale, shift from traditional toward modern animal husbandry, and shift from purely relying on natural grazing grounds for feeding the animals toward the direction of relying a unity between artificial grass planting and natural grazing grounds), build the five economic systems (the system of animal feed industries, the system breeding improved varieties, the system of pharmaceutical supplies and epidemic prevention, the system of advanced technologies, management methods, and promotion of improved varieties, and the system of in depth processing of agricultural products and commodity circulation).

Industries of the western regions should first of all be placed on the basis of energy resources development. This is not only because in the western regions energy resources are particularly rich and hence superior conditions for exploitation are present, but also because the whole country still encounters energy resources shortage today. Our industries have been concentrated from the very beginning in the east, where energy resources were rather short. Along with the further development of these industries in the east, contradictions in energy shortages became even more pronounced, with the net quantity of inter-province out-going coal transfer increasing from the 20 million tons of 1957 to more than 100 million tons today, thus greatly aggravating the tight situation in communications and transportation. Hence, while energetically developing energy industries in the western regions, efforts should be made, on the basis of the different strong points in mineral resources of the various provinces and regions, to correspondingly develop high energy consumption industries such as metallurgy, coal chemical industries, petroleum chemical industries and various mineral products processing industries. Besides, the various provinces and regions may also, on the basis of their respective existing industrial foundation, develop other superior trades, develop medium and small-sized enterprises complementary to the enterprises of the "three lines," energetically renovate their existing enterprises, do a good job in coordinating the relationship between enterprises under the jurisdiction of the ministries and local enterprises, and between military enterprises and civilian enterprises, and bring into play as soon as possible the potential of our current enterprises.

Communications and transportation are the advanced sectors of our national economy; they should proceed in the forefront. Today, the country's communications and transportation capabilities can hardly adapt to the requirements of transportation volume increase. The railway transportation mileage per sq km in the western regions makes up only 24 percent of that in the eastern regions; highway transportation mileage, only 27 percent; mail transportation mileage, only 25 percent; the state of backwardness here is especially salient and it seriously hinders our economic development. For this reason, there is need for the state to plan uniformly in order to accelerate railway construction in the western regions. For example, the electrification of the Baotou-Lanzhou Railway should be speeded up, and construction of the Zhong-Bao Railway should get started as soon as possible. Since the western regions are vast and moutainous, attention should be paid especially to the development of air transportation enterprises. At the same time, there is need also for the various provinces and regions to put forward their own respective plans for highway construction and build as early as possible a highway transportation network leading in all directions and to all localities while realizing simultaneously the rationalization of the vehicles structure. In provinces where conditions are present, efforts should also be made to energetically exploit inland river transportation.

## III. Do a Good Job in Correctly Handling the Relationship in the Course of Economic Development Between the East and the West

Speaking of the two parts in general, the east has strong points in technologies, talents, capital and communications but falls short on resources, whereas the west has strong points in resources but falls short on technologies, talents, capital and suffers inconvenience in communications. This determines that the east and the west must cooperate with each other, forth for their coal and products and save investment for railway construction; their economic results would then be far better than if they are built in the east.

In order to do a good job in the coordinated development of both the east and the west, they need the state to formulate plans for their coordinated development, to rationally arrange the regional deployment and developmental speed of key construction projects, so as to achieve optimum combined use of the resources, labor forces, capital, technologies and talents of both the east and the west.

For the sake of accelerating the economic development of the west, in the case of technical advancement, so long as conditions permit, efforts should be made to adopt a "leap" strategy by first of all using most advanced technologies selectively. But whether such advanced technologies are imported from abroad or adopted domestically, energetic support by, and cooperation with, the east would invariably be required.

## IV. In the Case of the Capital and Talents Required by the West for This Development, a Stand Must Be Taken on Self-reliance and Hard Struggle

The financial resources the western regions now possess are weak; in order to exploit and utilize as early as possible the natural resources of the western regions, they need the state to increase each year its support in manpower, material and financial resources and retain the differences in credit loan reserves in the west without transferring them elsewhere on the one hand, and to dispense certain special policies which are different from those elsewhere with respect to capital, taxation and interest rate so as to strengthen the internal vitality of the various provinces and regions of the west for developing their economy on the other hand; they further need to adopt preferential policies and multifarious forms, in keeping with technological imports, to energetically import domestic as well as foreign capital so as to accelerate their economic development. But foreign aid is, after all, just an external factor; external factors can play their role only through internal factors. This requires the western regions themselves to firmly establish the concept and workstyle of hard struggle and self-reliance and strive to do their work well. For this reason, they first of all must strive to do a good job in the consolidation and renovation and reform of their existing enterprises and demand capital from an improvement of the economic results of their existing enterprises. In 1983, the profit tax per 100-yuan fixed assets created by enterprises owned by all the people in the 11 provinces and regions of the west was only 57.6 percent of the average national level, and less than a quarter of that of the advanced regions. In this regard, their potential for increasing their capital accumulation is very great. Next, they must strive to improve the scientific character of their investment policymaking with respect to these fixed assets, do a good job in the feasibility study of newly built projects, achieve savings in the expenditure of administrative operations, learn to raise capital from the use of capital, and thereby demand capital from an improvement of the results from their investment. At present, the potential of the western regions in increasing their production and their savings is also considerable.

each must compensate what the other lacks with what one has, each must take what the other is good at to make up what oneself falls short of so as to turn their respective potential strong points into real strong points and thereby gain common development. For this reason, the east and the west must in their production achieve the following: unite with each other internally and push together toward the outside world--namely, the west must generally open up to the east, whereas the east must energetically support the west in its development, thus the two would unite together to develop their production, enhance their economic results, create famous-brand products, and cope with the outside world together while pushing into the international market. And in the technical advancement, they must succeed in importing from without and promoting within--namely, the east and the west, after importing advanced technologies from foreign countries, must, along with its own advanced technologies, impart them and transfer them to the other side so as to achieve common improvement. Only thus can the economies of both the east and the west score faster development, the economic deployment of the whole country tend toward rationality, and our overall economy become straightened out and enlivened.

Cooperation between the east and the west should be based on the principle of mutual benefit. The west must make sure to accomplish the tasks of external transfer of materials as prescribed by the state so that the productive capacity of existing factories in the east are fully utilized. But it needs also to gradually readjust the prices of its raw materials and fuels in order to benefit capital accumulation in the west itself. Before these prices are corrected, room should be left in the plans for external transfer; it may also consider returning part of the profits to the supply bases, or establishing preliminary processing enterprises at the raw materials production bases. Hereafter, when processing enterprises are to be newly established, they should be set in a rational pattern, but in general they should be established at raw materials production bases so as to benefit the economic development of the west.

At present, the gap between the levels of economic development of the east and the west already tends to widen. In order to gradually narrow it down, it is rather necessary to speed up the pace of construction in the west. This is required not only for strengthening the unity of the nationalities and consolidating our frontier defense, so long as the direction of investment and the projects of construction are set properly, it is also beneficial to our economy. As has been stated above, the west has strong points in the development of large-scale agriculture; relevantly increasing construction investment on agriculture, forestry and animal husbandry to accelerate the speed of development would be not only beneficial to the west, but also to the east. As for the industries, from the microscopic standpoint, certain projects, when built in the west, might require more investment and yield less economic results temporarily than if they are built in the east; but certain other projects might not be the case. From the standpoint of macroscopic economy. certain projects, when built in the west, would be closer to energy and raw materials bases, the deployment of productive forces for them would be rational, and they can hence reduce the transportation operations back and

The western regions of course lack capital for construction, but comparatively, they lack talents even more. Therefore, they should place the exploitation of talents ahead of all tasks, grasp it closely, and grasp it well.

Shortage in talents is national in scope; the fundamental way to solve this shortage can only be to produce them themselves. They energetically grasp basic education on the one hand and run well their vocational middle schools and technical schools on the other hand. What urgently needs to be done is to raise as early as possible the knowledge and technical level of their current middle-aged and young staff members and workers and countryside youths, especially concentrate their energy on training leading personnel of the economic departments. Only by improving the scientific knowledge level of the leading cadres can they improve, through them, the scientific character of their policymaking, launch the training of all their personnel, and improve the quality of their enterprises.

Whether training new talents or doing a good job in their current work, they must first of all rely on their existing talents. The 24 December 1984 issue of the "World Economic Herald" reports that "According to surveys conducted in the northwestern and southwestern regions, scientific and technological personnel who can be rationally used and whose use proves to be irrational each make up about 20 percent of the total; more scientific and technological personnel, however, can play a role but are unable to demonstrate what they are good at." Such evidence of waste of talents needs to be urgently solved.

Intellectuals of most of the provinces and regions of the west are from the outside; hereafter it is still necessary to import talents from the outside. But during the past few years, the evidence of intellectuals lost to other areas has been rather serious. In our region, for instance, not a few scientific and technological personnel who had come to support Ningxia have been leaving on the one hand, while on the other hand almost half of students whose homes are in Ningxia and who have entered universities elsewhere are not coming back. In the western regions, in order to stabilize the ranks of the existing intellectuals and further import talents, it is rather necessary to formulate a special policy on talents. In respect to the scientific and technological personnel working in the western regions, for instance, better conditions in their work may be created for them, preferential treatment may be granted them in their living conditions and expenses, and warm care may be extended to them politically. Turning in the direction of the country's student-recruiting universities and colleges, they should increase their student quotas in the provinces and regions of the west proportionately along with their recruitment targets, and also practice training them in definite directions; after the students graduate, they should assign them back to their original western provinces and regions and, in the case of those entrusted to them for training, refrain from collecting fees from them for such training. But this special policy should be formulated uniformly by the state in order to avoid letting the various provinces and regions raise their conditions of preferential treatment for the sake of competing for the talents and thereby give rise to certain wrongdoings and side effects. Besides, efforts may also be made to adopt the forms of "migratory birds" and a "rotational method" for the sake of attracting the intellectual power of eastern talents to move toward the west.

It is an inevitable trend for us to exploit and utilize the rich resources of our western regions in our economic development. For this reason, beginning immediately we must quickly do a good job in our various preparatory work. We must energetically strengthen our surveying and exploration of natural resources so as to further learn the actual situation of our resources. On this basis, the state shall formulate overall plans for the exploitation and utilization of our natural resources, and the various provinces and regions shall then formulate their respective detailed regional plans. Beginning right away, the various provinces and regions may follow the deployment of productive forces and key points of exploitation in the country to organize forces, with respect to the resources that may be exploited in their own respective provinces and regions, for the carrying out of deepening and careful feasibility study, and thereby put forward one or several feasible, alternative construction programs for research and policymaking when needed. Meanwhile, they should strengthen their scientific research institutions to concentrate on questions of exploitation and utilization of the resources of their respective provinces and regions, allocate special funds by periods and by batches to arrange key problem-tackling projects in science and technology, set a time limit for a breakthrough, and thereby make good scientific and technological preparations for the exploitation and utilization of their resources. On the basis of the characteristics of mineral resources of the west in that there are plenty of primary and secondary ores, efforts must be made especially to strengthen their scientific research in the comprehensive utilization of such mineral resources. This will be of great economic significance.

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ECONOMIC MANAGEMENT

## GOVERNMENT TO IMPORT MORE MANAGERIAL, TECHNICAL EXPERTS

HK140206 Beijing CHINA DAILY in English 14 Jun 86 p 1

[By staff reporter Zhu Ling]

[Text] China is planning to "import" more foreign brainpower to help the country's modernization drive over the next five years.

A senior official of the China Association for International Exchange of Personnel said yesterday that priority would be given initially to inviting more retired managerial and technical experts who were "genuinely talented and in good health."

A series of policies and regulations that would help enterprises import foreign brainpower are also being formulated.

"The Seventh 5-Year Plan (1986-1990) is a decisive period for our country's overall reform of its economic system and it is also an important time to train more talented people for the 1990's when larger and faster strides in economic development are expected," he said.

Since 1984, the practice of inviting foreign technical and managerial experts to work in China and sending people abroad for special training has gained momentum.

The official told CHINA DAILY that the number of foreign experts who came to work in China had been steadily increasing, hitting more than 10,000 last year. They are mainly teachers, technical and managerial experts and specialists who accompany imports of their firms' equipment.

Imported brainpower, he said, had proved to be valuable in five ways: improving enterprise management and technical modernization, the development of new products and technology, advice on the design and construction of some key projects as well as some scientific research projects.

Most of last year's projects that involved foreign "intelligence" had shown good results, especially in such areas as car manufacture, mining, aircraft, shipbuilding, dying and printing, hydropower and agriculture, he said.

In the meantime, China has sent many young and capable technicians and managers abroad for training in Japan, Federal Germany, the United States, Britain, France and others.

"The last two years have proved that the practice of importing foreign brainpower is of strategic importance to the country's modernization campaign," the official said.

The plan to invite more foreigners to work in China comes at a time when there is a tendency to focus on importing equipment and attracting investment. Some people still believe that these are the key to China's development.

Premier Zhao Ziyang has said that China's effort to modernize not only needs overseas technology and funds, but also, and most important, needs skills and managerial expertise.

The party General Secretary Hu Yaobang also urged the whole country to "import" specialists from the rest of the world.

"Practice has shown that modernization is impossible to attain through buying several sets of large-scale industrial equipment and that intelligence is a kind of "living power" that can serve modernization," the official said.

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## JIANGSU FINANCE OFFICES AID RURAL INDUSTRY

OW170606 Beijing XINHUA in English 0553 GMT 17 Jun 86

[Text] Nanjing, 17 June (XINHUA)--Production by rural factories in Jiangsu has soared since the province began setting up local finance departments in rural townships in 1984, a finance official said here today.

Owing to the underdeveloped nature of the rural economy, only the central, provincial, municipal and county governments had finance departments. The financial function of the government has never extended to the township level, the lowest level of government in rural China immediately after the county.

Jiangsu is pioneering the running of local finance departments in townships, as part of the national economic reforms. They collect taxes and supervise the supply of funds for rural production.

In the past, finance officials at county level performed these duties, but this became increasingly difficult as rural commodity economy developed rapidly in recent years.

Loans used to be issued to towns and villages according to quotas estimated by county officials. This led to funds lying idle in some areas, while other places were short of money.

But the new departments, which have been set up by all 2,000 town and township authorities in Jiangsu, are aware of local requirements, and ensure that loans are made where they are needed, said Zhang Kaihui, vice-director of the Provincial Finance Bureau.

They collect taxes and advise local collectively-owned factories on ways to cut costs and improve management. As a result, Jiangsu's rural industry produced 38.3 billion yuan worth of goods last year--60 percent more than in 1984.

Total rural output value in the province almost tripled from 27.4 to 77 billion yuan between 1980 and 1985. Industry, construction, transport and commerce contributed 62.5 percent of last year's total.

With 7,400 employees working in rural areas, township-level financial departments collected 2.56 billion yuan in taxes last year--24.3 percent more than in 1984. Revenue from rural areas accounted for 28.5 percent of the provincial total.

Since their establishment, these local finance offices have given priority to supporting rural commodity production, the development of local resources and the improvement of economic returns.

For example, industrial output value rose 70 percent and profits and taxes more than doubled in Xushi township, Changshu city, last year, where the finance department ensured the supply of working capital to rural enterprises by cutting or postponing 10 major, non-profit-making capital construction schemes when the government tightened money supply.

In another case, township financial departments in rural Xuzhou city allocated 5,400,000 yuan to help develop 1,000 production schemes. This increased state taxes by 770,000 yuan and profits by 500,000 yuan, said Zhang.

Township Financial Departments also allocated 100 million yuan to improve school facilities and raise teachers' pay.

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## ECONOMIC MANAGEMENT

### JIANGSU CIRCULAR ON HANDLING ENTERPRISE PROFITS

Beijing ZHONGGUO XIANGZHEN QIYE BAO in Chinese 9 Nov 85 p 1

[Report by Pang Tianzhong [6614 1131 0022]: "Jiangsu Province Issues Circular to Require: Earnestly Do a Good Job in Distributing and Using Profits from Rural Enterprises"]

[Text] The township and town enterprises administrative bureau and provincial agricultural bank of Jiangsu most recently issued a circular to require that the various county bureaus and banks grasp well the distribution and use of profits from township and town enterprises as an important task before the end of the year.

According to statistics by concerned departments, during the first half of this year the free working capital of township and town enterprises in Jiangsu Province has decreased by 10 percent compared to that of the corresponding period last year. The main reason for this was because the profits of part of these enterprises were not used to replenish their working capital as had been prescribed. Apart from this, the profits of certain other enterprises proved to be uncertain.

In response to these conditions, the circular provided concrete prescriptions in respect to the finances, contracting, entitlement to tax reduction and/or exemption, and credit loans of the enterprises. The circular stressed that the various counties, prior to the distribution of profits this year, must conduct a comprehensive inspection with respect to the finances of the enterprises and, in the case of enterprises with fraudulent accounting and separate accounting practices and wilfull encroachment upon state and collective interests, they must handle them conscientiously, including meting out punishment in respect to the issuing of credit loans. All enterprises must accurately calculate their profits; those which should not be subsumed under costs cannot be so subsumed. Before receipts from sales are registered into account, they shall not be calculated as profits and subjected to distribution.

The circular prescribes that, in respect to the distribution of after-tax profits, the proportions retained by the enterprises should in general not be less than 60-70 percent. Enterprises are not allowed to borrow funds in order to pay wages or to submit "profits" to cooperative economic organizations of districts and villages.

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## IMPROVEMENT IN SHANXI MACROECONOMIC SITUATION REPORTED

Taiyuan SHANXI RIBAO in Chinese 22 Nov 85 p 1

[Press release by Correspondence Group, Provincial Statistics Bureau: "Macroeconomic Management Initially Proves Fruitful; Speed of Growth Tends to Become Normal; Economic Situation in Our Province Is Fine; Problems of Speed Need Further Resolution"]

[Text] Since our province began to implement measures of macroeconomic management of the party Central Committee and the State Council, the excessive high-speed development of the province's national economy has gradually become normal, and our macroeconomic results have also improved somewhat.

According to the statistics of the provincial statistics bureau from January to October, the province had accomplished 15.71 billion yuan of industrial output value, thus fulfilling 85 percent of the annual plan. Compared to the corresponding period last year, the speed of increase dropped from 19 percent in January down to 16.4 percent during the first half of this year; from January through September, it decreased to 13.2 percent, and from January through October, it slowed down to 12.4 percent.

According to statistics of the first 3 quarters, profits and taxes realized by local state-run industries within plan increased by 12.9 percent; the profits and taxes they submitted increased by 28 percent; while the rate of such submission increased from the 69.6 percent of the corresponding period last year to 78.9 percent. The local financial revenues from January to October increased by 10.8 percent.

Since the beginning of this year, the momentum of excessive increase in investment in capital construction began to come under control, with the speed of increase in investment slowing down month after month. Along with this slow down in investment, the speed of construction of key projects at the same time accelerated. From January to October, the 16 major projects of the state in our province had already accomplished 80.3 percent of their investment plans; the 14 major projects of our own province had accomplished 77.6 percent of their investment plans; thus both exceeded the average level of having capital construction investment accomplished by 71.4 percent of the annual plan throughout the province.

In the process of the deepening development of the restructuring of our economic system, the purchases and sales in our urban and rural market were both thriving, with both purchases and sales growing in a sustained manner. Along with the emergence of price reform and wage reform at different points, the psychology of apprehension about the market gradually calmed down; the phenomenon of hoarded money impacting the market diminished. In addition, the purchasing power of social groups came under control, the margin of increase in the retail volume of the province's social commodities also gradually decreased. Along with this, the savings deposits of urban and rural residents of the province increased by a large margin. The increase in cash receipts at the banks proved to be faster than their cash payments; monetary investments also went down.

At present, a problem that needs further resolution in the development of the national economy in our province is still the increase in accumulation and consumption exceeding the speed of increase in production; the condition of the excessively large scale of investment in capital construction is still not fundamentally reversed; prices in the market are rising too fast; because the rate of increase in production has been too high, exceeding that of our transportaion capacity, relief for the tight transportation situation will be delayed. All of these are problems during our progress; under the guidance of correct principles and policies of the party Central Committee, they will be solved gradually.

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## ECONOMIC MANAGEMENT

### SUPPLY, MARKETING COOPERATIVES' PROBLEMS DISCUSSED

Shanghai JIEFANG RIBAO in Chinese 2 Nov 85 p 2

[Excerpt] Recently, certain cadres, staff and workers of local supply and marketing cooperatives have felt that as the supply and marketing cooperatives proceeded deep into reform they had encountered numerous difficulties and the main problems thereof are:

1. After the restructuring of these supply and marketing cooperatives, the support of certain local party and government departments was reduced. Some district leaders openly said that "When we handle rural enterprises, which earn profits, the district and village would have something to gain; but when we handle supply and marketing cooperatives, we cannot share their profits." Hence, in respect to the purchasing and selling of agricultural and sideline products, they were not as supportive as they used to be. The supply and marketing cooperatives, according to relevant documents of the provincial government, may manage liquors beyond the province's own fine products, but the concerned departments somehow proceeded to limit them. The Chuanzhou municipal supply and marketing cooperatives reported that when they purchased several batches of liquor from other areas, including over 2,000 cases of the Qianjiang beer of Zhejiang, the Jiafan wine of Shaoxing, the Xiaojiaolou wine of Sichuan and the like, they were detained by the concerned departments. When they reported to the concerned leaders, they only expressed sympathy, but the matter has not been solved even today. Supply and marketing cooperatives of the Longyan prefecture also reported that the 7 counties of the prefecture had issued lumber business licenses to 443 households, but only 32 supply and marketing cooperatives were approved.

2. The supply and marketing cooperatives were not assured of industrial products under the existing plan and commodities faced shortages. The original prescription of industrial products being given priority in their supply to the countryside, with even a fixed ratio of 7:3 between the rural and urban areas, is not even now implemented, and almost none could attain such already allocated proportions. Of the 29 industrial products surveyed by Shanghang County, only the single category of T-shirts and vests reached 70 percent. Among the 300,000 population of Pingwu County, countryside population makes up 94 percent; yet since the beginning of this year its system of supply and marketing cooperatives received almost no color television sets or famous-brand bicycles whatsoever. The Jianyang prefecture

also reported that they had had no share in money made but they did in money lost; after getting a share of the color televisions sets distributed this year, the supply and marketing cooperatives there had even to subsidize each set several yuan.

3. After restructuring, tax burdens had become rather unreasonable. For instance, it is prescribed that when the supply and marketing cooperatives purchase agricultural and sideline products they must withhold for the state 5 to 8 percent of special products tax, but when individual households and other departments did so, they did not have to so withhold. This way, the peasants proved to be unwilling to sell products to the supply and marketing cooperatives or entrust them to sell for them. Most recently, it was also prescribed that wholesale departments of the supply and marketing cooperatives system at and above the county level must submit 10 percent of wholesale tax according to the difference between their purchases and sales, whereas the state-run enterprises, township and town enterprises and transport households may be exempted. Other places also reported that certain departments handling foodstuffs, fowl and eggs did not have to pay tax, but the supply and marketing cooperatives must pay "three kinds of tax."

The supply and marketing cooperatives are the comprehensive service centers for developing commodity production in the countryside; they shoulder the glorious mission of serving production, the livelihood as well as the commodity circulation of our peasants, and they are the principal channels of our countryside commerce. Party and government leaders and concerned departments at all levels should look after these supply and marketing cooperatives, support them, and do a good job in their restructuring.

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## DEVELOPMENT OF HENAN RURAL ENTERPRISES DISCUSSED

Beijing NONGMIN RIBAO in Chinese 19 Nov 85 p 1

[Report by staff reporter Lu Xinyun [7627 1800 0061]: "Henan Township and Town Enterprises Show Steady Progress"]

[Text] "Henan has decided on a policy of "striving for them actively, handling them according to our own capabilities, and making progress steadily" for the development of its rural enterprises, and thereby shifted from reliance on loans for running its enterprises in the past to reliance on the masses to raise funds to run them, and from reliance on the district and village level for running enterprises to "five wheels all turning at the same time," paying attention to the development of household-based and joint-household management of enterprises.

In Henan last year, the development of rural enterprises had been fairly fast throughout the province. The output value last year broke through the threshold of 10 billion yuan, but this development was not very balanced; most places just made a start and the zeal of the vast ranks of the peasants was quite vigorous; but funds for farming loans turned out to be insufficient. In response to such a situation, the provincial party committee and provincial government adopted the aforesaid policy to implement "two shifts" and "five wheels all turning at the same time," thus better overcoming the difficulty of not having sufficient funds and enabled our rural enterprises to develop from the outskirts of cities and townships toward remote villages, and from the district and village level toward hundreds and thousands of households. Although the compression of funds for loans has been rather great in proportion, the quantity, output value and profits of, and tax money submitted by, rural enterprises throughout the province have all simultaneously undergone some growth. Up to the end of September, 320,000 enterprises had been added; their output value reached 12.445 billion yuan, an increase of 18.9 percent over that of the corresponding period last year; the tax money they submitted amounted to 280 million yuan, an increase of 13.4 percent over the corresponding period last year. In order to accelerate the development of their rural enterprises, various places of the province have also imported 457 million yuan of capital, more than 5,600 sets of equipment, more than 3,900 technical projects, and over 27,000 technical personnel.

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## SHANDONG TOWNSHIP ENTERPRISES' PRODUCT QUALITY REPORTED

Beijing ZHONGGUO XIANGZHEN QIYE BAO in Chinese 30 Nov 85 p 1

[Report by reporter Liu Peifang [0491 0160 5364]: "Township and Town Enterprises of Shandong Adopt Effective Measures; Quality of Products of Key Trades Continues to Improve; There Are 75 Products Throughout the Province Having Won Superior Quality Titles of Which 2 are of Superior Quality in the Country, 32 under the Ministry, and 41 within the Province"]

[Text] In the process of developing its township and town enterprises, Shandong Province has adopted effective measures, strengthened its quality control, and, after several years of strivings, the province has altogether gloriously won 75 superior quality product titles at various levels of which 2 are of superior quality nationally, 32 are under the ministry, and 41 are within the province.

Most recently, the provincial township and town enterprises diversification bureau, following the spirit of the circular issued by the State Economic Commission and Ministry of Agriculture, Animal Husbandry and Fishery concerning the development of quality inspection, and under the energetic assistance of the unified organizations of economic commissions and concerned departments at various levels, has inspected altogether 4,143 township (town) and village enterprises, and 5,525 kinds of products. As a result of such inspection, qualified products make up 98.4 percent, of which those of the superior quality class make up 8.9 percent.

The Shandong provincial party committee and provincial government last year formulated the "Decision on the Vigorous Development of Township and Town Enterprises," which prescribes that the three great trades of rural construction materials, medium and small farming instruments, and agricultural and sideline products processing are subsumed as a matter of correspondence under the provincial township and town enterprises diversification bureau for their control. In order to better implement this decision, the provincial township and town enterprises diversification bureau has especially established an agricultural and sideline products processing center and scientific and technological service station to take the responsibility of promoting new techniques, exploiting new products, promoting overall quality control, and organizing superior quality creation and superior quality appraisal activities; thus the quality of products of the province's township and town enterprises has continued to improve.

During the past few years, township and town enterprises bureaus at various levels within the province have run more than 60 cement training classes of various types, and trained more than 3,000 person/times of various technical categories, spent 16.8 million yuan of investment on the establishment and perfecting of cement inspection instruments, and assigned 2,160 chemical testing personnel. Today, of the province's 198 small cement plants with a yearly production capacity of 2,000 tons of cement or above, 191 have, after joint inspection and acceptance by the prefectural and municipal standards bureaus, township and town enterprises bureaus, and construction materials bureaus, already attained the standard prescribed by the state construction materials bureau. This year, efforts have been made to conduct a general inspection of 180 cement plants; 1.6 million tons of cement have been inspected, which make up 94 percent of the small-producer cement production by township and town enterprises; their product qualification rate was 98 percent, an increase of 1.24 percent over that of the corresponding period last year. In 1985 the ministry of agriculture, animal husbandry and fishery named 20 small-producer cement superior enterprises across the country, with 4 in Shandong. Last year, Shandong also had 14 brick plants which gloriously won the superior enterprise title conferred by the ministry of agriculture, animal husbandry and fishery.

When uniformly transmitting the yearly production plan for medium and small farming implements, the 800 sickles and 900 hoes the province planned to produce were mainly produced by the 8 plants assigned by the provincial bureau. During the last few years, the provincial bureau has reinforced the technical transformation of these assigned plants. Today, the assigned plants have all realized mechanized production, with the quality of their products improving year after year. The "Yang Qiao Pai" sickles produced by the Guanqiao sickle plant in Teng County have gloriously won the state silver plaque award in 1981. In September this year, they once again seized first prize at the national sickle quality appraisal conference. In the hoe-manufacturing trade, because it has generally promoted the new heat-processing production technique, the endurance of its products has improved nearly 100 percent compared to that of the past. Up to the very present, among the provincially assigned 8 medium and small-scale farm implement plants, 4 have already created products judged to be of superior quality in the country, under the ministry, and within the province.

The provincial bureau, in coordination with concerned departments, has fiercely grasped the quality control over the foodstuff services of the township and town enterprises and, through its implementation of the legislation on foodstuff hygiene, launched its superior quality product creation activities in order to gradually perfect its foodstuff quality control work. This year, the provincial bureau, with the support of the industrial and commercial as well as public health and epidemic prevention departments, has jointly formulated the regulation on the stamping of numbers on cans, which has now already been put into practice. During the last 2 years, the provincial bureau has altogether organized 8 foodstuff quality appraisals. Last year, 17 foodstuff products were appraised to be ofsuperior quality by the province, and 9 as of superior quality by the ministry. In September this year, the ministry of agriculture, animal husbandry and fishery held a beverages quality appriasal and selection meeting in Guilin; among the fruit juice beverages 12 were selected and recommended in a report to the ministry as of superior quality, of which those of Shandong made up half. Most recently, the ministry of agriculture, animal husbandry and fishery again held a canned foodstuff appraisal in Yantai; altogether 46 kinds were selected throughout the country and recommended in a report to the ministry as products of superior quality; of these, Shandong's again numbered as many as 18.

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## DEVELOPMENTS IN XINJIANG'S TOWNSHIP ENTERPRISES REPORTED

Beijing ZHONGGUO XIANGZHEN QIYE BAO in Chinese 7 Dec 85 p 1

[Report by Liu Wenhui [0491 2429 2585]: "New Momentum of Development Appears in Xinjiang's Township and Town Enterprises; By September Overall Income of 600 Million Yuan Already Fulfilled; an Equivalent to That of All of Last Year"]

[Text] In the Uighur Autonomous Region in Xinjiang, where the township and town enterprises have started late and developed slowly, there has, through the conscientious implementation of the spirit of Central Document (1985) No 1 and the conference of township and town enterprises work in the autonomous region, been new development of the township and town enterprises there. From January to September, 600 million yuan of overall income have already been fulfilled, an equivalent of the actual income of the whole year of 1984, making up 74.3 percent of the overall income of the plan of 1985. It is estimated that the whole year's overall income will show an increase of 32 percent or better than that of the last year.

This year, the main characteristics of development of the township and town enterprises of the Uighur Autonomous Region in Xinjiang are: 1) party and government leaders at all levels have begun to put the development of its township and town enterprises in the status, in the whole situation of its countryside work, of a strategic measure for realizing the quadrupling, the prosperity of the people, the reform of the industries structure in our countryside economy, and the reviving of our countryside economy; 2) they have intensified their efforts to "link up within and import from without," and carry out the opening up to the outside world. Today, they have already established a relationship of cooperation in various forms with 22 provinces, municipalities and autonomous regions, and over 3,000 projects of negotiation as to intentions, of which 500 have alreay been agreed upon or had the factories in question built and put into operation; 3) Enthusiasm of the peasants in running township and town enterprises has grown in an unprecedented manner. This year, there have been 60,000 rural laborers throughout the region who shifted from their planting and breeding undertakings to rural industries and tertiary industries. Meanwhile, the free capital of the rural collectives and individual peasants that is invested in the township and town enterprises has conspicuously increased. According to available statistics, from January to September this year, the funds raised by the masses throughout the region have amounted to more than 50 million yuan, making up one-third of the overall investment in the township and town enterprises; 4) The development of the peasants' joint-household enterprises and family industries has been rapid and vigorous. This year, there have been added over 20,000 newly developed joint-household enterprises, which gathered about 30 million yuan of capital; their overall income this year is expected to be 150 million yuan, an increase of more than 60 percent over that of last year. The proportion of revenues of the joint-household enterprises and individual enterprises in the overall revenues of all township and town enterprises will increase from the 14 percent of last year to about 20 percent; 5) The structure of the trades has undergone some new changes. During the last few years, in the township and town enterprises of the Xinjiang Autonomous Region the service revenues and resource revenues have made up 60 percent or more of the overall revenues, and the countryside industries have been rather weak. This year, through readjustment and support, trades like agricultural and animal husbandry products processing, mining, construction materials, chemicals and light industries and textile have all enjoyed faster development; the proportion of the revenues of township and town enterprises in the region will increase from the 35 percent of last year to more than 50 percent.

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ECONOMIC MANAGEMENT

## BRIEFS

**SHAANXI SERVICE TRADE EXPANSION**--From the beginning of the year up to the present, the trades in which our province's individual industrial and commercial households are engaged have already developed to more than 250 kinds, which help bring even more conveniences to the lives of the masses. Through the end of September, the province's individual industrial and commercial enterprises already numbered 262,962; with more than 398,000 employees. Except in the case of the individual commercial and food industries, there has been considerable development in respect to small-scale industries, mining, construction, communications and information consultation, culture, education and art, as well as science and technology, with their trades thus numbering more than 250. In 1980, the individual industrial and commercial enterprises in the countryside made up 32 percent of the province's total individual industrial and commercial enterprises; by June this year, they had reached 76.1 percent. At the end of June this year, the average per household capital of the province's total individual industrial and commercial enterprises amounted to more than 960 yuan, an increase of 102 yuan over that of 1984, with roughly over 3,000 individual households shifting to cooperative management. [Text] [Xian SHAANXI RIBAO in Chinese 17 Nov 85 p 1] 9255

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## FINANCE AND BANKING

### LIAOWANG VIEWS CHEN MUHUA AT ADB ANNUAL MEETING

HK210921 Beijing LIAOWANG in Chinese No 19, 12 May 86 p 7

[Article by contributing correspondent Zhai Shuyao [5049 2885 5069]: "Chen Muhua Attends ADB Board of Governors' Annual Meeting for First Time"]

[Text] From 30 April to 2 May, the Asian Development Bank [ADB] whose headquarters is in Manila, held its 19th annual meeting at the Philippine International Conference Center. In her capacity as the Chinese member of the board of governors, Chen Muhua, a Chinese State Councillor and president of the People's Bank of China, led a delegation to attend the meeting. This was the first time the PRC attended the annual meeting of the board of governors since it formally became an ADB member on 10 March this year.

The ADB is an intergovernmental international financial organization in the Asian-Pacific Region, consisting at present of 47 members. Its board of governors is its supreme policy decisionmaking organ.

Representatives from various member states and regions, and representatives and experts from international financial institutions, totaling over 1,200 in number, attended this year's annual meeting. Philippine President Corazon Aquino attended the opening meeting and gave a long speech of congratulations.

The responsible person in the meeting's news center told this reporter that the number of participants at this annual meeting was greater than last year because of the participation of the Chinese representatives. Over 150 reporters from all over the world came to report the meeting, and many of them came to have a special interview with Chen Muhua. The meeting participants unaminously extended their welcome and congratulations to the PRC delegation. Quite a number of participants pointed out in their speeches that the participation of China, a country with the largest population in the world, in the ADB has enabled the ADB to more properly represent the region, and to enlarge its area of operation to a region consisting of 2.5 billion people and become a really common official financial institution in the Asian-Pacific region. Some participants called this a new milestone in the history of the development of the ADB. Many participants praised China for its economic reform and policy of opening up to the outside world.

China's representation on the board of directors is a problem that should be solved at an early date after China has joined the ADB. In his opening speech, Sri Lanka's Ronnie de Mel, president of this year's annual meeting, proposed that as China was a big country with the largest population in the world, and as it was a country of decisive importance in Asia, China had to have representation on the board of directors. The representatives from most countries and areas favored his proposal. The majority of countries held that the board should be enlarged by one seat which should be given to China. This not only took into consideration China's position in the Asian and world economy, but would also not affect representation on the board of medium and smaller developing countries in the region. However, a small number of European and American countries held different views and proposed that the number of directors from countries outside the region had to be correspondingly increased. Some of them believed that there should be no change in the size of the board. Because of the differences in opinions, the annual meeting failed to make any decision on China's representation on the board of directors. ADB president Fujioka Masao said that this problem had to be solved as soon as possible. China and the ADB agreed that before the problem relating to China's representation on the board of directors was solved, China would send its representative to the ADB to attend the meeting of the board of directors.

When the PRC was admitted to the ADB, the Chinese side reached an understanding with ADB authorities to allow Taiwan to continue to keep its ADB membership under the name of "Taipei, China." However, Taiwan representative did not attend this year's annual meeting. It is reported that the Taiwan authorities have adopted a "policy of three refusals"--"refuse to accept, refuse to withdraw and refuse to participate in"--toward this decision. The people in financial circles and reporters who attended the annual meeting, held that the Taiwan authorities' attitude is impractical and unwise and that by so doing, the Taiwan authorities would only isolate themselves. At a press conference, president Chen Muhua declared: We hope that the Taiwan authorities will meet the common desire of the large number of ADB members, adopt a cooperative attitude and send representatives to attend the next annual meeting. We are willing to carry out business cooperation with representatives from Taipei, China within the scope of the ADB. We have noticed that economic, financial and press circles in Taiwan hope so also.

During the 3-day session of the annual meeting, the participants discussed the economic situation in the Asian-Pacific Region. Last year, many developing countries in the Asian-Pacific region were in economic difficulties. The GNP of the developing countries rose by only 3.6 percent on average, lower than the 6.6 percent average increase in 1984 and the 6 percent annual average increase in the preceding 10 years. The major cause of these economic difficulties was the worsening of the international environment day by day. Many representatives from developing countries expressed worries about the many problems that they encountered. These problems were: The trade protectionism conducted by developed countries; the decline of primary products prices; the growing burdens of debt; and the huge increase in financial deficits. They raised a strong demand that the developed countries remove their protectionist trade barriers. Pakistan and other developing countries pointed out clearly that at present, the world economy is interrelated. Therefore, strengthening developing countries not only meets the interests of the developing countries themselves, but is also conducive to the cooperation between developed and developing countries. The representatives from some developed countries also realistically pointed out in their speeches the harm of trade protectionism and expressed their desire to develop cooperation with the vast number of third world countries.

The annual meeting also discussed the ADB's business and the principles for its operation in the coming year. Since its founding in 1966, the ADB has played a positive role in developing the economy in the Asian-Pacific region, provided preferential loans to some countries that were in economic difficulties, and helped some countries and areas develop their economy. Last year, the total amount of loans provided by the ADB was $1.9 billion, a decline of 14.6 percent compared with 2.2 billion in 1984. Through discussion, the annual meeting decided to increase the Asian Development Fund in order to meet the demand of developing countries for loans. The annual meeting expressed a welcome for the actions of some European countries in providing special sources of funds for the ADB.

At the closing ceremony on 2 May, the representatives from various member countries and areas unanimously elected Masao Fujioka ADB president for another 5-year term and Noboru, Takeshita, Japanese Minister of Finance, as president for the next annual meeting. They also decided to hold the next annual meeting in Osaka, Japan.

Before she left Manila, President Chen Muhua told this reporter: The 19th ADB annual meeting has scored positive achievements. The effective cooperation between the ADB and its members will certainly make positive contributions to economic development and prosperity in the Asian-Pacific region.

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## FINANCE AND BANKING

### BANGKOK BANK SETS UP OFFICE IN BEIJING

HK270128 Hong Kong ZHONGGUO XINWEN SHE in Chinese 1522 GMT 23 May 86

[Article by staff reporter Liu Yusheng [0491 7183 3932]: "A Milestone in the History of Thai Banking--Record of the opening of the Bejing representative office of the Bangkok Bank"]

[Text] Beijing, 23 May(ZHONGGUO XINWEN SHE)--This afternoon a jubilant atmosphere filled the fifth floor of Block A-2 of the Beijing Lidu Hotel. Distinguished Thai and Chinese guests came to congratulate Dr (Amnuai Valawong), chairman of the hoard of directors of the Bangkok Bank; and (Chen Yu-han), its president, on the successful opening of the Beijing representative office of the bank.

Bangkok Bank President (Chen Yu-han) told Thai State Bank Chairman (Kanchon Sathin) that the Bangkok Bank was very grateful to him for coming such a long way to preside over the opening ceremony of its representative office in Beijing, which is a great honor for Bangkok Bank.

He said: With the institution of its economic structural reform and the implementation of its modernization plan, China urgently needs foreign investment and support in the fields of science, technology, and labor service. In view of the increasingly important position of China, Bangkok Bank decided to set up a representative office in Beijing. We are deeply convinced that this will strengthen the friendship and close relations between Thailand and China.

Thai State Bank Chairman (Kanchon Sathin) wished the Beijing representative office of the Bangkok Bank success in its business and hoped that the office would make contributions to the constant development of the friendly relations between two countries.

Mr (Kanchon) said: Thailand and China have long-standing friendly relations, and the people of the two countries are quite close to each other in culture, habits, and customs. Since the establishment of diplomatic relations between the two countries in 1975, the total bilateral trade volume has increased from 2.7 billion baht in 1976 to 13.4 billion baht in 1985, over a fivefold increase in 10 years. I am very glad to see the establishment of the Beijing representative office of the Bangkok Bank.

I believe that following the development of China's economic structural reform and the implementation of its modernization plan, this representative office will support China in its economic structural reform and modernization drive, apart from promoting trade and investment between the two countries.

Tang Ke, vice chairman of the board of directors of the China International Trust and Investment Corporation; Chen Kedong, vice chairman of board of directors of the Bank of China; and Chai Zemin, former Chinese ambassador to Thailand, went to the Beijing Hotel to take part in an evening banquet to celebrate the opening of the office, after attending the opening ceremony. Also present at the banquet were Liu Hongru, vice president of the People's Bank of China; Li Peng, vice minister of the Ministry of Finance; Lin Zuyi, vice minister of the Ministry of Communications; and other Chinese and foreign guests totaling some 200 people.

In the banquet hall on the second floor of a new building of the Beijing Hotel, Dr (Amnuai Valawong) made a warm speech. He said: Setting up the representative office in such a great place as China is an extraordinary honor for everyone connected with Bangkok Bank. We believe that the establishment of the representative office is a milestone in the history of Bangkok Bank and the Thai banking business as well. In the banking business, we are convinced that we will be worthy of the support and cooperation provided for us by the People's Bank of China and relevant Thai and Chinese organs.

Mandated by the People's Bank of China and on behalf of the board of directors of the Bank of China, Chen Kedong, vice chairman of the board of directors of the Bank of China, warmly congratulated the opening of the Beijing representative office of the Bangkok Bank. He said: For many years, the Bangkok Bank, the largest commercial bank in Thailand, has played a positive role in Sino-Thai economic exchanges and monetary cooperation. We highly appreciate this. There are now over 20 Thai investment projects in China, and most of them have produced good economic results. China has run eight companies and over 20 joint ventures (mainly engaged in contract projects) in Thailand. Although Sino-Thai economic cooperation started a little late, a good beginning has been made in this cooperation. We are deeply convinced that the establishment of the Beijing representative office of the Bangkok Bank will play the role of a bridge in more effectively promoting economic, trade, technological, and monetary cooperation between China and Thailand.

In a message of gratitude, President (Chen yu-han) said that with its history of 42 years, Bangkok Bank is the largest commercial bank in Thailand and in the rest of southeast Asia as well. It has 332 branches in Thailand and abroad, with total assets of $10 billion. Since Thailand and China established diplomatic relations, Bangkok Bank has given full support to promoting trade and economic cooperation between the two countries. Now we have set up a representative office in Beijing. This is the first representative office established in China by a Thai commercial bank and serves as proof of our full confidence in the prospects for Thai-Sino trade and economic cooperation. We sincerely hope that we will make greater contributions to promoting trade and economic cooperation between Thailand and China.

(Bunnat Sarmasathin), executive deputy for the Thai Ministry of Finance; (Asa Sarasin), executive deputy for the Thai Ministry of Foreign Affairs; and Orachun Tanaphong, Thai ambassador to China, also attended the opening ceremony of the representative office and the banquet.

People from financial and monetary circles in China and Thailand as well as other Chinese and foreign guests proposed toasts to the prosperity of the Bangkok Bank and wished success to the representative office of the bank.

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## INCOME RISES FOR RESIDENTS OF URBAN AREAS

OW140624 Beijing XINHUA in English 0612 GMT 14 May 86

[Text] Beijing, 14 May (XINHUA)--The average monthly income of urban residents reached 79.44 yuan in the first quarter, an increase of 23.3 percent over the same period last year, CHINA DAILY reports today.

The paper quotes the state statistical bureau as saying that per capita monthly wages of city dwellers averaged 64.47 yuan in the first three months of this year while their bonuses amounted to 14.97 yuan. The bureau gave these figures on the basis of a recent survey conducted in 28 metropolitan areas.

According to the survey, the city dwellers spent an average of 42.72 yuan per month on food, up from the 34.49 yuan spent in the same period of 1985. Monthly consumption of non-staple foodstuffs recorded a sharp increase.

Urban residents each month consumed an average of 1.51 kilograms of pork, 0.79 kilograms of eggs, 0.82 kilograms of fish and 0.46 kilograms of poultry.

Spending on durable goods continued to grow. By the end of March, every 100 families in the surveyed cities owned 57 washing machines, 17 refrigerators, 76 black and white TV sets, 26 color TV sets, 29 hi-fi steroes and 18 cameras. Spending on electrical appliances increased by 27.7 percent over the year ago rate.

In the first quarter of this year, city residents' purchases of cosmetics and jewelry increased by 42.9 and 20 percent respectively.

The survey also showed an income gap of 1:1.3 between inland cities and coastal cities during the same period.

The average per capita monthly income in Tianjin, Shanghai, Guangzhou and Fuzhou was 91.41 yuan while that in Xi'an, Lanzhou and Zhengzhou was 68.3 yuan. Taiyuan, the provincial capital of Shanxi province, had the lowest average income, 51.88 yuan, in the first quarter despite an increase of 9.16 yuan over the same period of 1985.

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FINANCE AND BANKING

## SHANDONG REPORT ON 1985 ACCOUNTS, 1986 BUDGET

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[Excerpts of report on Shandong Province's 1985 final accounts and the 1986 draft financial budget delivered by Guo Changcai, director of the provincial Finance Department, at the Fourth Session of the Sixth Shandong Provincial People's Congress on 10 May]

[Text] 1. The 1985 Final Accounts

In 1985 under the leadership of CPC committees and governments at all levels, various localities and departments have conscientiously implemented the party line, principles, and policies as well as the various resolutions adopted at the third session of the sixth provincial People's Congress, thus scoring gratifying achievements in economic structural reform and in production and construction undertakings, making the urban and rural economy flourish, and further improving the people's living standards. On the basis of the sustained, steady, and coordinated development of the national economy, the financial budget was implemented in a good manner. The tasks for revenues stipulated by the budget were overfulfilled, and the revenues increased substantially. Expenditures increased greatly, which successfully ensured the smooth implementation of the wage and pricing reforms and the need of the development of various construction undertakings. The unified accounts of the province show that in 1985 revenues and expenditures were in balance, with a small cash surplus in hand, thus meeting the demands of the resolutions adopted by the third session of the sixth provincial People's Congress.

In 1985 revenues totalled 6.753 billion yuan, or 112.84 percent of the budgeted figure. Calculated in terms of comparable items, the 1985 revenues increased by 22.55 percent over the previous year. Of this, taxes (including the income tax and regulatory taxes from state enterprises) totaled 7.796 billion yuan; profits and taxes turned over by enterprises, 60 million yuan; and various subsidies for price differences and for making up for the losses of enterprises, 1.172 billion yuan. These subsidies were deducted from the revenue. The substantial increase in the 1985 revenue resulted mainly from the following factors: First, production increased rapidly, the economic situation was good, and tax revenues increased accordingly. Second, after relaxing control over prices, some products were purchased and marketed at negotiated prices, with higher prices for better-quality products, thus increasing revenues accordingly. Third, the increase in revenues resulted from such policy changes as collecting the bonus tax, resource tax, and the additional construction tax, collecting agricultural taxes in cash instead of in kind, and raising the price of standard grain. Fourth, the launching of the general survey of tax revenues and financial affairs added a part to the revenues. The increase in financial revenues was suitable for the changes of the objective economic situation.

[Word indistinct] province sold 352 million yuan of treasury bonds, and collected 451 million yuan of funds for key energy and communications projects, overfulfilling both the tasks assigned by the [word indistinct] authorities.

In 1985 expenditures totalled 5.13 billion yuan. Adding the 528 million yuan of special funds which were not consumed in 1985 and will be used continually in 1986, the 1985 expenditure was 103.8 percent of the budgeted figure. Calculated in terms of the same standard, the 1985 expenditure increased by 19.95 percent over the previous year. The relatively big increase in expenditures resulted partially from the increased revenues which provided more financial resources for the localities to use, the introduction of the wage and pricing reforms, and the development of various undertakings. Major items of expenditures were as follows: Appropriations for capital construction totalled 556 million yuan, a 7.26-percent increase over the previous year. Funds allocated for tapping the potential of enterprises or transforming enterprises totalled 121 million yuan, a drop of 23.59 percent.

The major reason for the reduction was that in order to increase enterprises' ability for transformation, financial authorities collected less depreciation funds and left the money directly to enterprises for tapping potential and carrying out technical transformations. This part of funds did not affect the expenditure, and therefore actually increased in terms of some standards. The funds for the three scientific and technological purposes totaled 53 million yuan, an increase of 0.17 percent over the previous year. The funds for the provincial-level purposes grew by 22.31 percent. Urban maintenance and environmental protection expenses totaled 393 million yuan, an increase of 78.31 percent. Aid to rural production and other operating expenses for agriculture came to 425 million yuan, a 7.44-percent increase. Operating expenses for culture, education, science and public health services totaled 1.676 billion yuan, a 22.08-percent increase. The increase in the operating expenses for education was 25.87 percent. Pensions for the disabled or for the family of the deceased, and social relief funds came to 244 million yuan, an increase of 21.94 percent. Administrative expenses amounted to 701 million yuan, a growth of 0.84 percent.

Our province's 1985 financial situation was a 179 million-yuan surplus when offsetting the overall revenue and expenditure of the province in line with the current financial system. In this way, our deficits accumulated over the past years declined from 192 million yuan to about 13 million yuan (the deficit of loss-making units were 129 million yuan, and the surplus of profit-making units was 116 million yuan).

The fulfillment of the 1985 budget fully proved that the CPC Central Committee's line, principles and policies adopted since the 3d Plenary Session of the 11th CPC Central Committee are totally correct, and have played an increasingly greater role in stimulating the socialist economic development. The provincial CPC committee and government also achieved good results by leading the people throughout the province in implementing the resolutions of the NPC and the provincial people's congress, and adopting in a timely manner a series of measures for reform, enlivening the economy, promoting production, and increasing the revenue and cutting the expenditure. After progressive improvement over the past few years, our province's financial situation again made a great step forward last year, and experienced encouraging changes.

First, the revenue grew steadily. Since 1979 when the national economy was readjusted and restructure, the state has adopted some major policy measures for cutting the revenue and increasing the expenditure, such as raising the purchasing prices of farm and sideline products, expanding the financial power of enterprises, increasing the subsidies for such farm and sideline products as grain, cotton, edible oil, meat, eggs and vegetables alone totaled 10 billion yuan in the Sixth 5-Year Plan period. These measures effectively promoted industrial and agricultural production, which in turn laid a solid foundation for the increase in the revenue. In 1979, the province's revenue declined by 15.33 percent; in 1982 it rose to a level of that in 1978; in 1983 it grew by 10.5 percent; in 1984 it again achieved a 7.7-percent increase; and in 1985 it increased by 1.37 billion yuan over the previous year, and the financial resources at local authorities' disposal increased by 1.1 billion yuan, representing the largest annual increase in many years.

Second, the expenditure pattern became more rational. In the first few years after economic readjustment, the expenditure declined for 3 years in succession due to the reduction of the revenue and local financial resources. In 1982, it picked up, and rose to a level close to that of 1978. After that it grew every year, changing the passive situation in which the expenditure could only maintain the basic needs. In particular, expenses for cultural, educational and public health undertakings, urban construction, the welfare of staff [word indistinct], and other work aiming at improving the people's material and cultural lives increased substantially. Allocations for culture, education, science, technology and public health were 869 million yuan in 1980 and 1.676 billion yuan in 1985, showing an average annual increase of 14 percent. Expenses in the urban maintenance and construction increased from 95 million yuan in 1980 to 356 million yuan in 1985, a 270-percent increase.

Third, financial deficits were reduced, and some reserve strength was accumulated. Our province suffered from deficits in 1979 and 1980 in succession. During the Sixth 5-Year Plan period there were another 2 red years, and the accumulated annual deficits surpassed 300 million yuan at most. Through many years of hard work, these deficits have already been solved basically. Along with the improvement in the financial situation, financial departments at all levels have positively rasied funds, gradually established and constantly expanded circulating funds for supporting the diversified occupations in the rural areas, town and township enterprises, development of mountainous areas, farmland water conservancy projects, and aquatic products and breeding industries, as well as the fund for supporting the underdeveloped areas. Last year the province also introduced on a trial basis the method of establishing a circulating fund for supporting the development of the cultural, educational, scientific, and public health undertakings, thus not only supporting the development of the current production and construction projects, but also accumulating a number of financial resources for the vigorous economic development in the last decade of this century.

At present, the general financial situation is good, the task of effecting a fundamental turn for the better in financial situation has been basically fulfilled, and revenue and expenditure have begun to embark into the orbit of a benign cycle. However, we cannot say that our financial situation is very good; the contradiction between demand and the possible supply of funds remains very conspicuous; and many financial difficulties remain. In particular, some localities have increased their revenues in a slow manner; some counties have been unable to make both ends meet, and still depended on subsidies to lead their lives; and some areas now still take on the burden of deficits. At the same time, along with the further development of reform, some new factors for revenue reduction and expenditure increase will appear, and the financial balance will not be very stable. A slight negligence will lead to a passive situation. In our work, there still are some problems. Major indicators are: First, many enterprises suffer from the poor management and technological expertise, fail to meet the state requirement on self-digesting the wage increase and the price hikes of raw materials emerging in the course of reform, and fail to fundamentally change the poor economic efficiency. The problem of setting irrational quotas on enterprises has not yet been solved. Second, the supervision on financial management is not strict, and loopholes in revenue and expenditure are very serious. Collection and management of the scattered taxes from country fair trade are still a weak link, and tax evasion in this regard is relatively serious. Third, some localities and units have not acted according to their financial capacity and wasted their money. These problems must be solved conscientiously.

## 2. The Draft Financial Budget for 1986

The year 1986 is the first year of the Seventh 5-Year Plan period, and the financial situation in this period will be very good. In line with the guidelines of the Fourth Session of the Sixth NPC, the principles for arranging the province's financial budget are as follows: Further improving the measures for reforming financial and tax systems in line with the demands of consolidation, digestion, supplementing, and improvement; adhering to maintaining balance between revenues and expenditures, and ensuring the construction of key products with due consideration to ordinary ones in distributing financial resources; giving priority to ensuring the allocations for the wage and pricing reforms and for the necessary undertakings; striving to increase investment in agriculture; further supporting the development of cultural, educational, scientific, and public health undertakings; and continually improving the material and cultural livelihood of the urban and rural people.

In line with the state-assigned tasks, the 1986 budgeted revenue is 7.418 billion yuan, an increase of 9.85 percent over the pervious year. Of the sum, tax receipts (including income taxes and regulatory taxes of state enterprises) total 8.213 billion yuan; profits delivered by enterprises total 127 million yuan; and various subsidies for price differences and enterprise deficits come to 981 million yuan. In addition, the central authorities have assigned a treasury bond purchasing task of 346 million yuan, and a task to collect 257 million yuan of key energy and communications project construction funds, both remaining the same as those of previous years.

In the 1986 budgeted expenditure, that at the disposal of local authorities is 4.561 billion yuan, 12.75 percent more than in the previous year. The essential breakdown for the expenditure is as follows: Appropriations for capital construction total 390 million yuan, 12.86 percent more than in the previous year; funds for the three scientific and technological purposes come to 41 million yuan, an increase of 13.83 percent in terms of comparable standards; expenses for urban maintenance and environmental protection are 413 million yuan, an increase of 13.89 percent; aid to rural production and other operating expenses for agriculture total 432 million yuan, and 11.68-percent increase; operating expenses for culture, education, science, and public health services are 1.844 billion yuan, an increase of 12.2 percent, of which the operating expenses for education grew by 14.03 percent; pensions for the disabled or for the family of the deceased, and social relief funds total 181 million yuan, a 7.46-percent increase; administrative expenses total 743 million yuan, a 7.66-percent increase; and reserve funds are 70 million yuan. According to the financial system of cooking with separate stoves, financial departments at various levels may make [word indistinct] arrangements according to their financial capacity.

I will make the following explanations on the arrangements for this year's budget.

1. Except for subsidies for the increased prices of above-quota grain and edible oil, the subsidies for the lard used in making soap, subsidies for cotton price difference, marketable coal and pigskin, and subsidies aiming at stabilizing market pork and vegetable prices that are provided out of policy considerations are deducted from the revenue as in the past. In line with the guidelines of the fourth session of the Sixth NPC, these price subsidies should be listed as an item of expenditure and made known to the public so that the people's congress can better examine the actual scale of

Generally speaking, this year's budget is rather strained. With regard to the revenue, last year's growth was substantial, and in this year, some factors contributing to single-item and temporary increases have disappeared. At the same time, some revenue-cutting and expense-increasing items have come out one after another since the beginning of this year. All this will have a fairly great impact on revenue. With regard to expenditures, expenses will increase fairly greatly because of the wage and price reforms last year and this year, and the increases in staffing and wages. Therefore, this year's task of balancing revenue and expenditure is very arduous. We should remain clear-headed, step up our work, be more prudent in spending money, and guard against blind optimism and taking things lightly.

## 3. Strive to Increase Production and Practice Frugality, Increase Revenue and Cut Expenditure, and Ensure the Successful Fulfillment of this Year's Budget

In order to successfully fulfill the 1986 budget, consolidate and develop the financial achievements we have already scored, maintain a financial balance, support reform in various fields, and promote economic development, we should unify our understanding and exert concerted efforts to grasp the following work conscientiously:

1. We should continue the financial and tax reforms, and make good preparations for the reforms in next year and the year after. We should follow the State Council's arrangements to do a good job in reducing the regulatory taxes of large and medium-sized enterprises and in gradually raising the depreciation rates of some enterprises while continuously invigorating small enterprises so that enterprises can acquire more vitality. We should expand the scope of value-added tax collection step by step and promote specialized production and lateral economic cooperation. The method for levying income taxes from urban and rural self-employed laborers engaged in industrial production or business should be gradually improved in order to further regulate the interests of the state, the collective, and the individual. In the financial system, this year we should continue the method of "defining different categories of taxes, and examining and approving revenue and expenditure, with the authorities at different levels each fixing their responsibilities." After conducting investigations and study, and summing up experiences, the methods for distributing and managing city, prefectural, and county financial resources should be improved whenever necessary. Efforts should be made to accelerate the pace of building financial affairs at the township-town level in order to meet the need of building political power at the township-town level and the development of the rural economy. We should take into overall account the scope of financial revenues and spending at county and township levels, the situation of financial systems and measures, and the distribution of financial sources. Efforts should be made to enable these accounts not only to be favorable to bringing into play the enthusiasm of townships and towns in increasing revenues and curtailing expenditures, but also to be favorable to consolidating financial affairs at the county level. A good job should be done in continuously carrying out enterprise-style management among the

budgeted revenue and expenditure and the policy on fund distribution, and the people can understand more comprehensively the state's efforts to improve the urban and rural people's living standards and promote industrial and agricultural production. Because this reform involves a series of issues on the accounting of the central authorities and the province, and of the province and various cities and prefectures, this budget has been worked out temporarily according to the original methods. When these subsidies are listed as an item of the expenditure, the 1986 budgeted revenue and expenditure will increase correspondingly.

2. This year's budgetary funds for enterprises to tap potentials and carry out technical transformation show a 10.67-percent decline from the previous year. This is mainly because of the readjustment of the items of the budget. Although the budgetary funds for enterprises to tap potential and carry out technical transformation have been reduced, enterprises have more channels to obtain potential tapping and technical transformation funds thanks to the state's several policy measures to relax restrictions and invigorate enterprises. For instance, effective last year, a 70-percent reduction has been granted to the increased part of the regulatory taxes over the previous year, and this year the state has again granted our province regulatory tax reductions and remissions, totaling some 57 million yuan, for large and medium-sized enterprises, and raised some enterprises' depreciation rates in a planned manner. Such measures help increase the funds for enterprises to tap potentials and carry out technical transformation.

3. In line with the guidelines of Document No. 1 of the central authorities, we have made great efforts to increase investment in agriculture when arranging our local budget. Following the development of the rural commodity economy and the reform, financial investment in support of agriculture has become multifaceted. For example, the state recently assigned a 60 million-yuan quota of special funds for grain development at various levels; the central authorities will allocate some subsidies for developing cotton and lean-meat hog production bases, and the local authorities should also allocate some; and the funds earmarked for supporting economically underdeveloped areas will increase from 5 million yuan in the previous year to 16 million yuan, which will also be used in supporting agriculture. In addition, the state has adopted measures, such as tax reduction and subsidies, to lower the price of fertilizer sold by small plants, and the benefits to agriculture will reach approximately 120 million yuan throughout the province. The agriculture-oriented circulating funds issued by various financial departments may be used when recovered. A success in managing and using these funds will help to promote agricultural production.

4. Because of the funds needed in the wage reform of administrative units and institutions, including the phase-in payment resulting from the wage reform carried out in the latter half of 1985, in solving certain outstanding problems that cropped up in the reform, and in readjusting the wage categories of some localities, the annual expenses will increase by more than 200 million yuan, which have been incorporated into relevant budget items.

establishments and units and in adopting various ways and means to encourage or support these establishments and units to strengthen their management by developing a diversified economy and expanding the service scope and to increase their incomes in a reasonable way. Those units who are already enforced enterprise-style management should be provided with the relevant self-determination power in production, business operations, profit distribution, wages, and [word indistinct]. Meanwhile, efforts should be made to progressively cut their state subsidies until they totally become self-reliant and increase incomes from their technical renovation results.

2. Efforts should be made to vigorously increase incomes from the increased output and to increase economic results in order to ensure the steady increase of financial revenues. The economy is the financial foundation and production and returns are the sources of financial revenues. If we fail to show a 10 percent increase in the annual total industrial output value this year, we will be hard up in financial affairs because of so many factors reducing income and increasing expenditures. Therefore, efforts should be made to increase production and to continuously open new financial sources in order to provide more incomes for state finances. In line with the relevant provisions issued by the State Council, we should actively promote lateral economic associations by vigorously enforcing financial and tax policies and encourage enterprises, on the basis of taking voluntary action and stressing mutual benefits, to establish trans-regional, transprofessional, and trans-urban-and-rural associations and cooperation with the key enterprises as backbone forces and famous and fine-quality products as the main targets. Attention should be paid to strengthening the business and financial management of enterprises; enforcing strict scientific accounting systems and responsibility systems in the economy; supporting enterprises to make technical renovations and progress; vigorously reinforcing the enterprises' strength in self-improvement, technical digestion, and in facing an emergency; upgrading the quality of products; increasing the output of products enjoying brisk sales; lowering costs and expenses; accelerating fund circulation; and achieving the largest economic results by using the smallest consumption.

Efforts should be made to earnestly implement Document No. 1 issued by the CPC Central Committee this year; to continuously support the drive to conduct reforms in economic systems in the rural areas; to improve the conditions of agricultural production; to promote the readjustment of the production structure in rural areas; to support the research, exploitation, and application of agricultural science and technology; and to successfully render services before or after production. While vigorously grasping grain production, we should vigorously support the development of township and town-run enterprises and a diversified economy. Efforts should be made to support them as much as possible in funds or in enforcing relevant policies in order to help them enhance business and financial management, do a good job in carrying out economic accountings, and stress economic results to maintain their vigorous vitality.

Efforts should be made to vigorously organize incomes on the basis of enlivening the economy and developing production. In line with the policy, efforts should be made to collect all money that deserves to be collected according to fixed volume and to hand them over to the state. We should further enhance tax revenues, deeply carry out propaganda work on the tax law, enhance tax revenues and management in a down-to-earth manner, and should particularly do a good job in grasping rural tax revenues. In line with the unified arrangements made by the State Council, a good job should be done in organizing the annual general inspection of tax revenues and financial affairs in order to strictly enforce the law and discipline and to ensure that income increases from increased output.

3. We should strengthen and improve macroeconomic management, act according to our capacity, and strictly control and curtail financial expenditures. Governments at all levels should keep expenditures with revenue limits in spending money and handling affairs, arrange for various items of expenditure in accordance with the possibility of local financial resources, strive to maintain a balance between revenues and expenditures, and actually keep the scale of expenditures within the limit of the budget. In line with the state plan, we should spend our money on production and construction projects in the right order of importance and urgency and on the items which are needed most urgently. This is an important principle for socialist economic work and financial work. Embezzlement is a crime, and waste is also a crime. At present some units still indulge in serious waste in the fields of production, construction, circulation, and consumption. Some localities and units are pursuing high-grade living facilities, and go in for grandiose projects in capital construction regardless of the possibilities of manpower, materials and financial capacities. Some continue to arbitrarily issue bonuses and materials, thus infringing upon the long-term interest of the state and the people. Failing to thoroughly solve these problems will prevent us from developing the socialist economy and straightening out party and government style. Carrying forward the glorious tradition of working arduously and building up the country through thrift and hard work is an important content of building a spiritual civilization. We should attend to doing political and ideological work and strive to enable everybody go show concern over the utilization results of funds and to struggle against various phenomena of waste. As for some serious waste cases, conscientious investigations must be conducted, strict punishment must be given, and those leaders and persons responsible for the cases must be called to account.

4. We should concentrate our efforts on helping in a planned way those poverty-stricken counties whose expenditures surpass revenues to change their situation. At present there are more than 50 counties whose revenue fall short of expenditures, which have relatively more difficulties, and whose economic, cultural, educational, and other undertakings have developed slowly. We should help in a planned manner these counties develop production, open up financial sources, increase revenue, strengthen economic vitality, and change the situation of their revenue falling short of expenditures.

Financial and tax departments at all levels should further straighten out the guiding ideology for professional work. These departments should strengthen self-construction, improve the competence of cadres, and vigorously promote the development of production with the stress on the improvement of economic efficiency. These departments should also constantly open up new methods for earning, accumulating, and using money, should strive to increase revenues and economize on expenditures, and should work hard for the fulfillment of the 1986 budget.

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FINANCE AND BANKING

## REPORT ISSUED ON BEIJING MUNICIPAL 1985 ACCOUNTS, 1986 BUDGET

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[Excerpts of the report on the 1985 Beijing municipal final accounts and the draft 1986 budget, delivered by Wang Baosen, director of the Beijing Municipal Financial Bureau, at the 5th Session of the 8th Beijing Municipal People's Congress on 14 May]

[Text] Fellow deputies:

Entrusted by the Beijing Municipal People's Government, I now submit the report on the 1985 municipal final accounts and the draft 1986 budget to the present session for examination.

### 1. The 1985 Final Accounts

The 1985 financial budget was implemented with good results on the basis of the sustained, stable, and coordinated development of the national economy. Now I would like to report on the implementation of the 1985 financial budget.

The 1985 municipal budget for revenues adopted by the fourth session of the eighth municipal People's Congress totaled 4.52 billion yuan, but it was fulfilled by 5,234.691 million yuan, 116 percent of the budgeted figure. Of this, taxes totaled 44,414,207 million yuan, or 134 percent of the budgeted figure; revenues from industrial enterprises totaled 1,274.841 million yuan, or 91.6 percent of the budgeted figure (104.3 percent of the budgeted figure in terms of comparable standards); revenues from communications departments totaled 28.612 million yuan, or 114.5 percent of the budgeted figure; revenues from construction and building enterprises totaled 60.99 million yuan, or 122 percent of the budgeted figure; agricultural taxes totaled 25.762 million yuan, or 155.2 percent of the budgeted figure; subsidies to make up for the losses incurred by grain departments due to policies totaled 220,222 million yuan, or 161.9 percent of the budgeted figure; and other subsidies and losses permitted by policies totaled 382.393 million yuan. All of these subsidies and losses permitted by policies have already been deducted from the total revenues.

The 1985 municipal budget for expenditures adopted by the fourth session of the eighth municipal People's Congress was 3,039.859 million yuan. In the course of implementing this budget, the budget for expenditures was readjusted to 3,759.669 million yuan as required after being approved by the Standing Committee of the municipal People's Congress. The result of the implementation shows that the total expenditures amounted to 3,298.594 million yuan, or 87.7 percent of the readjusted budgeted figure. Of this, appropriations for capital construction totaled 1,082.58 million yuan, or 88.8 percent of the budgeted figure; funds allocated for tapping the potential of enterprises or for transforming enterprises totaled 298.993 million yuan, or 99.9 percent of the budgeted figure; expenses for the three scientific and technological purposes totaled 69.629 million yuan, or 87 percent of the budgeted figure; allocations for supporting agriculture and for agricultural undertakings amounted to 122.558 million yuan, or 80.2 percent of the budgeted figure; allocations for urban maintenance amounted to 157.492 million yuan, or 97.8 percent of the budgeted figure; allocations for cultural, educational, scientific, and public health undertakings amounted to 684.19 million yuan, or 92.6 percent of the budgeted figure; expenses in administrative management amounted to 158.68 million yuan, or 99.2 percent of the budgeted figure; allocations for subsidizing the foodstuffs of the urban residents amounted to 328.882 million yuan, or 81.1 percent of the budgeted figure: and allocations for undertakings of industrial, communications, and commercial departments, for giving employment to urban youths, for the disabled and the family of the deceased, for social relief, and for undertakings of other departments totaled 395.65 million yuan.

Excluding the portion turned in to the central authorities, the 1985 revenues and expenditures were in balance, leaving a small cash surplus in hand.

The result of the implementation of the 1985 financial budget shows that the budget for revenues was overfulfilled, and the expenditures ensured the development of key construction projects and various other undertakings and the smooth progress of various reform projects within the approved scale.

1) On the basis of economic development and expansion of financial sources, the revenue budget was overfulfilled by a relatively big margin. The 1985 revenues were 720 million yuan more than the budgeted figure, a 13-percent increase over the previous year in terms of comparable items, and higher than the increase in revenues has seldom been seen for the past few years and the amount of revenues has been a record high since the founding of the PRC. This mainly resulted from the situation in which the reform promoted the sustained, stable, and coordinated development of the national economy, the economic work began to embark on the road of increasing economic efficiency, and the financial sources were consolidated and expanded.

2) Profits retained by enterprises increased and the capability of enterprises in self improvement and development was upgraded to a certain extent. Over the past year, the municipality has adopted a series of measures to further enforce the encouragement policy by conducting the second-stage reforms in improving the system of replacing profits handed over to the state with collecting taxes. According to statistics, in 1985, the municipality's enterprises retained 1.97 billion yuan of profits, a 600 million yuan and 43.7 percent increase over the 1984 figure. The rate of depreciation in fixed assets among the state local industrial enterprises reached 5.2 percent on the average, a 05.-percent increase over the 1984 figure. Depreciation funds showed a 40-million yuan increase. The increase of financial strength among the enterprises has created a favorable condition for conducting technical renovations, developing new technology and new products, increasing economic results, and for enhancing the reserve strength of enterprises.

3) On the basis of developing production, the people's livelihood was further improved and the enthusiasm of staff members and workers was brought into play. In 1985, the municipality spent 1.9 billion yuan in readjusting wages of staff members and workers in the administrative and business units and the public-owned enterprises and in giving subsidies for the people's livelihood. Of this spending, the wage increase of staff members and workers in the state organs and business units and the public-owned enterprises reached 380 million yuan. In line with the state stipulations on price reform, effective 10 May, the municipality adjusted the purchasing and marketing prices of pork and six other commodities. In order that the people's lives will not be affected by the price adjustments, the municipality now issues a 7.5-yuan nonstaple food subsidy to every urban resident per month (the per-capita subsidy for minority Muslims and college and university students is 9 yuan per month), and the spendings for this proposal will total 330 million yuan in 8 months. In addition to the subsidies mentioned above, the municipality also spent 1.19 billion yuan on various subsidies for the people's livelihood. Calculated in terms of urban residents, the yearly average per capita subsidy reached 198 yuan. Of this subsidy spending, the policy considerations for those in grain and edible oil reached 470 million yuan; those in meat, eggs, poultry, vegetables, and fish, 415 million yuan; those in cooking coal and LPG, 130 million yuan; those in street cars, buses, and subway trains, 85 million yuan; those in rent and heating facilities, 21 million yuan; those in textbooks of middle and primary schools, 2.2 million yuan; those in soap, 8.8 million yuan. To further explain, the reason why the municipality appropriated 415 million yuan for subsidies after relaxing the price control of seven commodities including pork in 1985 is mainly because of the larger losses incurred before the relaxing of price control. Though the losses decreased after the relaxin of price control, the state should still give subsidies to some commodity producers in order to maintain a balance in prices and to ensure a certain stock of meat and eggs. In particular, the financial department should give a certain subsidy to vegetable producers in order to ensure the basic stability in prices.

The people's livelihood was still markedly improved thanks to the increase of wages among the staff members and workers and the subsidies of nonstaple foodstuffs, though commodity prices were somewhat raised. In 1985, the average wages of staff members and workers showed an 11.4-percent increase over the 1984 figure after deducting the factor of price hike. Per peasant income showed a 16.7 percent increase over the 1984 figure.

4) The key construction projects were ensured and the construction of the basic municipal administrative facilities was enhanced. In 1985, the spending on capital construction showed a 7.6 percent increase over the 1984 figure, which was mainly used for the construction of the basic municipal administrative facilities. The municipality completely built a large number of backbone projects closely related to the people's livelihood, including water supply, gas supply, road construction, and housing construction. In 1985, the municipality spent 157.492 million yuan on urban maintenance, (totaling 203.492 million yuan plus the additional funds for maintaining urban public utilities), which were mainly used for the ordinary expenditures of urban afforestation, environmental sanitation, and public facilities.

5) Expenditure on intellectual development increaed considerably. This helped promote the development of educational, scientific, and public health undertakings. The expenditure on educational, scientific, and public health undertakings in 1985 increased by 23.6 percent over that of 1984. When deducting the incomparable factors for readjustment of wages, the expenditure on these undertakings increased by 13.6 percent. The expenditure on sports, cultural, and broadcasting undertakings in 1985 showed substantial increases over that of 1984. This helped promote the socialist spiritual civilization. Besides these, the municipality has made new achievements in developing these undertakings.

6) Agricultural production was supported and the readjustment of the rural production structure was promoted. The allocations for developing agriculture and agricultural undertakings in 1985 increased by 9.8 percent over that of 1984. According to the guidelines of the Document No. 1 of the central authorities and the municipal CPC Committee's instructions on "serving the capital and making the peasants prosperous," the municipality concentrated on supporting the suburban counties to develop commodity production, readjust the production structure, develop key and developmental production and service trades, and set up foodstuffs production bases; and focused on supporting the town and township enterprises and the rural specialized households to develop the commodities in short supply. All this has created conditions for developing the rural commodity economy, rapidly changing the rural appearance, providing the capital with abundant foodstuffs, and further making markets brisk.

7) Administrative expenditure was reduced by a big margin and the institutional purchasing power was strictly brought under control. The municipal government took effective measures for vigorously reducing the institutional purchasing power and the allowances for purchasing facilities,

holding conferences, and making business trips. With the concerted efforts of all departments, districts, and counties, many difficulties were eliminated. Under the circumstances in which the number of organizations and staff members increased and the wages were readjusted, the administrative expenditure showed a drop of 15.9 percent from 1984 and the municipality fulfilled the task of reducing 20 percent of the total institutional purchasing power and the task of reducing the purchases of the specially-controlled commodities by 50 percent. The administrative expenditure and the institutional purchasing power were controlled within the target assigned by the central authorities.

8) The financial and economic discipline was consolidated through the general investigation on tax revenue and financial affairs. According to the demands of the State Council, last September, the municipality established organizations specially in charge of the investigation work and more than 110,000 people throughout the municipality engaged themselves in the work. As of the end of 1985, the municipal-level units handed over 290 million yuan of overdue revenue. Of this, most units actively handed over the overdue revenue to the municipality through self-investigation. At the same time, a few units were found to have violated the financial and economic discipline. The general investigation helped increase the revenue as well as played an initiative role in handling a few problems in violation of the discipline, promoting a turn for the better in party style and social conduct, straightening out and ending the unhealthy practices, and helping the cadres and the people enhance their understanding of the legal system, policies, and the whole situation.

9) New progress was made in the reform of the financial department. Fellow deputies, the situation of implementing the 1985 financial budget was good. However, there were many problems which deserved our attention. First, the investment in the scale of the capital construction was still on the high side and the idea of paying attention to new construction projects and looking down upon transformation projects still existed. Second, although we had made gratifying achievements in turning the situation in which the economic results of the enterprises were not high, we still lagged behind in this regard. The enterprises have great potentials for increasing their economic results. Third, we were lax in financial management and financial and economic discipline. Some units still had serious cases of having "loopholes," suffering losses and waste, and violating financial and economic discipline. Thus, we should study and work out feasible measures for solving these problems in a step-by-step manner.

## 2. Draft 1986 Budget

The 1986 budget has been drafted on the basis of the general tasks defined in the Seventh 5-Year Plan and the various targets set forth in the 1986 plan for national economic and social development. In making arrangements for the revenue, we have adhered to the principle of being optimistic but not over-ambitious, and have maintained a stable growth rate on the basis of developed production and improved economic results. In making arrangements for the expenditure, we have adhered to the principles of doing our best within our capacity, and of ensuring key areas while taking general work into account, and, in the meantime, have brought the capital construction scale into strict control, continued to cut down administrative spendings, and strictly controlled institutional purchases.

The 1986 budget revenue is 5,900 million yuan, an increase of 8 percent over the previous year in terms of comparable standards. The growth rate is basically the same as that of production. The specific breakdown is as follows: industrial and commercial tax receipts total 4.71 billion yuan, receipts from industry 1,398 million yuan, receipts from commerce 130 million yuan, subsidies for losses of grain enterprises due to implementation of policies 320 million yuan, and income from other sources 72.6 million yuan.

The 1986 budget expenditure is 4,304 million yuan, a 7.6-percent increase over the previous year in terms of comparable standards. The specific breakdown is as follows: appropriations for capital construction total 918 million yuan, funds to tap the potential of enterprises, and finance their technical transformation 50 million yuan, aid to rural production and other operating expenses for agriculture 143.72 million yuan, funds for urban maintenance 176 million yuan (if surcharges from public utilities is included, the total is 223 million yuan), operating expenses for culture, education, science, and public health services 773.38 million yuan, administrative expenses 200 million yuan, subsidies for nonstapel foods of urban residents 600 million yuan, other price subsidies 626.9 million yuan, funds for three scientific and technological purposes, pensions for the disabled or for the family of the deceased, social relief funds, and others 716.7 million yuan, and reserve funds 100 million yuan.

According to the above-mentioned arrangements for the revenue and expenditure, our municipality will have a balance between the revenue and expenditure if the portion to be turned over to the central authorities in line with the stipulations of the financial system is excluded.

The explanations on the 1986 budget revenue and expenditure are listed as follows:

1) Price subsidies are listed as an item of expenditure instead of being deducted from the revenue, thus the scale of revenue and expenditure is expanded correspondingly. Price subsidies that cover such items as grain, cotton, edible oil, and other farm and sideline products, marketable coal and leather products made from pigskin, and deficits from vegetable sales are provided by the revenue out of policy considerations. In the past, we used to deduct these subsidies from the revenue. Such a method could neither truly reflect the actual scale of revenue and expenditure, and the policy on fund distribution, nor reflect the state's efforts to improve the people's living standards and promote industrial and agricultural production. For this reason, the state decided that from 1986, these subsidies would be listed as an item of expenditure instead of deducting it from the revenue. Listing price subsidies openly, which is an important

reform of the budget administrative system, is conducive to strengthening financial management and supervision. Now that the price subsidies are no longer deducted from the revenue but listed as an item of expenditure, the 1986 draft budget will show an increase of 490.9 million yuan in both the revenue and the expenditure, thus correspondingly expanding the scale of 1986 revenue and expenditure. When calculating the 1986 budget revenue, we have taken into account some policy measures. These include reducing regulatory taxes for large and medium-sized enterprises, raising the epreciation rates for fixed assets of enterprises, raising the interest rate of banks, raising railway transportation fees, increasing the fees for operating grain and oil allocation and distribution among provinces, and other factors for reducing income.

2) We should accelerate the construction of the urban basic facilities and suit the needs of modernizing the capital. For 1986, appropriations for capital construction covered by the budget are 165 million yuan less than the previous year. This has been decided in line with the state-assigned scale of capital construction and with the principles of giving consideration to our financial strength, taking all factors into consideration, and giving prominence to key construction projects. We should continue to readjust the investment structure, pay attention to increasing investments in water supply, gas supply, heat supply, and road projects, and give top priority to the construction of the urban basic facilities. At the same time, we should speed up the construction of residences, hospitals, schools, and commercial networks.

3) We should increase investment in intellectual resources, and accelerate the development of the cultural, educational, scientific, and public health undertakings. For 1986, the appropriations for the cultural, educational, scientific, and public health undertakings are budgeted at 773.38 million yuan, a 13-percent increase over the previous year. Of this sum, appropriations for educational undertakings are budgeted at 438.78 million yuan, a 13.4-percent increase over the previous year and higher than the increase in revenues which is 8 percent. The budgeted appropriations for educational undertakings conform with the guidelines of the national and municipal educational conferences. The increased portion of expenditures will be spent mainly on the popularization of the 9-year compulsory education and on strengthening vocational, technical, and adult education. To solve the shortage of the teaching and administration allocations to primary and middle schools, the standard for the teaching and administrative allocations has been raised by 100 percent beginning from this year. At the same time, we have provided funds for awarding excellent teachers. We have made great efforts for arranging the 1986 educational allocations. However, owing to the large amount of bills due, poor conditions, and the relatively poor conditions for running primary and middle schools, we will try our best to increase again educational allocations, if financial strength is allowed, in the course of implementing the budget along with the development of production and the increase in revenues.

4) We should increase the allocations for supporting agriculture, and accelerate the readjustment of the rural industrial structure. In the 1986 budget, allocations for supporting agriculture and for agricultural undertakings increase by 17.1 percent over the previous year. To increase the funds for supporting agricultural production, the state has decided to return a part of the increased portion of the income tax and industrial and commercial taxes collected from town and township enterprises to the township governments to support the development of agricultural production beginning from this year. These funds amount to about 10 million yuan annually. A part of the after-tax profits of town and township enterprises should also be invested in agriculture in line with the principles of "supporting agriculture with industry," and "supplementing agriculture with industry." To help poverty-stricken areas gradually change their backwardness, we have released 5 million yuan from the agriculture supporting funds and allocated this to 37 poverty-stricken townships to help them strengthen self-reliance and production development abilities in order to eliminate poverty and to become prosperous as early as possible.

5) We should ensure the supply of funds for wage and price reforms. In 1986, we have provided 123 million yuan for the wage reform of administration and institutional units. This money will be mainly used to make up for the "increased expenses" in the wage reform last year and the wage increase of administrative and institutional units, and to solve some conspicuous problems. This portion of funds has already been incorporated into the expenditure items of various pertinent departments. In 1986, we have provided 6 million yuan for foodstuff subsidies to the urban residents. Expenses in other price subsidies are budgeted at 626.9 million yuan.

Fellow deputies, generally speaking, the 1986 budget for revenues is positive, and that for expenditures is relatively tight. We believe that through the concerted efforts of various departments, we will be able to fulfill the fiscal budget for this year.

## 3. Strive To Fulfill the 1986 Budget

In order to successfully fulfill the 1986 budget, and carry out economic and financial work for the first year of the Seventh 5-Year Plan period, we should mobilize the masses of cadres, and staff members and workers throughout the municipality, overcome difficulties, enhance our confidence, and exert concerted efforts to do a good job in the following:

1) We should persistently give top priority to reform, and stimulate the development in the economy and other undertakings of the capital. We should carry out reforms in the economy, the financial system, and financial affairs with a prudent and positive approach in line with the State Council's requirement for "consolidation, assimilation, supplementation, and improvement." This year, we plan to further reduce the regulatory taxes for large and medium-sized enterprises, and continue to raise the depreciation rates for fixed assets of some enterprises in order to enhance their capacity for transformation and development. In the meantime, we should

enforce the system of responsibility for certain targets to arouse the initiative of enterprises and their staff members and workers. We should further relax the preferential policies toward small commercial enterprises, and study and formulate measures for subsidizing loss-making commodities. On the premise of stabilizing markets, boosting enterprise enthusiasm, improving operation and management, and reducing the burden on the state, the method of controlling the total vlume, or the system of fixed quotas for the deficit of every commodity should be adopted. The method of signing contracts to fix the amount of wages for every 100 yuan's worth of finished work adopted by state building and construction enterprises should be further improved. State farming, animal husbandry, and aquacultural enterprises should continue the method of "fixing financial quotas and holding the responsibility for their own profits and losses." We should improve the district and county "fixed financial quotas" system. Effective this year, all the 19 districts and counties should institute the financial management system of "appraising and deciding on the revenue and expenditure according to tax categories, and defining the quotas of every level," and the quotas should remain unchanged for 5 years. Township financial departments should be established extensively. The areas of responsibility of administrative units and establishments should be further expanded, and some of them should be selected to experiment with the fixed-quota budget management system. Meanwhile, we should lend active support to the reform of the economic, educational, and scientific and technological systems, and to the lateral economic cooperation of enterprises among different provinces, regions, departments, and trades. In order to conform to the needs in developing the socialist commodity economy, departments concerned should play their role as a lever to regulate the economy, gradually change their mainly direct control over enterprises into mainly indirect control, and establish a new socialist macroeconomic management system.

2) We should pay close attention to increasing production and cutting expenses, strive to improve economic results, actively open up financial sources, and ensure a stable growth in revenue. In 1986, we should maintain a proper growth rate in industrial production, and strive to realize the target of "ensuring a 6-percent increase." This is the prerequisite for fulfilling the 1986 revenue plan. At the same time, great importance should be attached to improving economic results in production, construction, and circulation spheres. We should perfect the economic responsibility system within enterprises, strictly enforce various rules and regulations, strengthen economic accounting, strive to reduce cost and fees, accelerate the turnover of funds, shorten construction cycles, economize on manpower, material, and financial consumption, and achieve the best economic results with the least possible consumption. Industrial departments should be oriented to the needs of markets, serve and submit themselves to consumption, and increase the production of readily marketable and highly competitive products. Commercial and service departments should give full play to the leading role of state enterprises, and develop their advantage in making the market and circulation flourish. They should strengthen operation and management, increase the varieties of their commodities, expand the scope of their services, and improve their service quality. We should conscientiously pay attention to stopping deficits and increasing profits. Feasible

measures should be adopted to help the units which suffer deficits for a long period of time due to poor management to stop deficits within a definite time. We should consolidate township enterprises group after group at different times, and raise their technical and managerial levels.

3) We should uphold the principle of acting according to our ability and doing our best in bringing spending under strict control or saving expenditures. On the premise of ensuring fund supply for the construction of key projects and the development of various undertakings, efforts should be made to bring the financial spending scope under strict control within the budget. We should spend less money in doing more work and good jobs in order to enable limited funds to yield greater results. In 1986, we should continuously control the scope of investment in fixed assets and do things strictly according to the procedure of capital construction. Efforts should be made to continuously curtail the administrative fund. Administrative units should carry forward the fine tradition of waging arduous struggles, working hard, and practicing economy; oppose extravagance and waste; and must bring their spending under control within the target fixed for urban areas. By no means should they surpass the target. Efforts should be made to continuously control social institutional purchasing power and to strictly examine and approve purchase applications, particularly examining and approving the purchase of commodities under special control. We should enhance control over foreign exchange currency spent by persons going abroad at a last moment in order to save on foreign expenses. Efforts should be made to enhance management over funds outside the budget and to consolidate "small money lockers." In 1986, there will be a great deal of work to be done by the municipality in various fields as well as a very prominent contradiction between need and possibility because of limited financial strength. Therefore, departments, units, districts, and counties should make overall arrangements by proceeding from the entire situation and differentiating between the important and the less important and between the urgent and the less urgent, and should make efforts to upgrade the effect of fund utilization and to resolutely prevent the excess arrangement of financial strength or the practice of "eating next year's food."

4) We should enhance financial supervision and strictly enforce financial and economic discipline in order to prevent or correct malpractices. In line with the spirit of the decision made by the State Council, efforts should be made to regard the work of conducting general inspections over tax revenues and financial affairs as an important task in the drive to conduct reforms, and, while enhancing regular supervisory work, to realistically correct the malpractices in the economic field each year by selecting a proper opportunity and concentrating all manpower. The financial affairs, tax affairs, and audit departments should make concerted efforts with other departments in upholding the principle of doing things in line with the law, strictly enforcing the law, and of investigating those who have violated the law in order to achieve an effect in safeguarding the financial and economic discipline.

5) We should enhance the building of ranks of personnel in charge of financial and tax revenues and upgrade the quality of cadres and the standard of management. Efforts should be made to adopt various ways and means to train cadres and to delve into reality to carry out investigation and study in order to grasp the new situation and study new problems. We should further straighten out the guiding ideology of professional work; stress reasonable ways of making, saving, and using money; and should make efforts to develop production, promote circulation, support the drive to conduct reforms, increase results, and foster and expand financial sources. Cadres in financial and tax offices should set examples in being honest in performing their official duties, strictly abidinb by the discipline, and resolutely combating or correcting malpractices.

Fellow deputies, the implementation of the budget in the first 4 months this year was normal. Under the encouragement of the spirit of the Fourth Session of the Sixth NPC and along with the gradual improvement of various measures for conducting reforms in economic systems, the national economy will achieve more stable and harmonious development this year. Under the leadership of the municipal CPC Committee, we should mobilize the people throughout the municipality to unite as one and to pool their wisdom and strength in order to strive to fulfill the municipal 1986 fiscal budget.

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CSO: 4006/1113

## FINANCE AND BANKING

### BRIEFS

POST OFFICES BANKING SERVICE--Guangzhou, 17 June (XINHUA)--Guangdong province in South China will offer bank services at 100 post offices this year to facilitate savings and collect funds for economic development. The province's Post and Telecommunication Administrative Bureau and the Guangdong branch of the People's Bank of China have agreed to start the business in Shenzhen, Zhuhai, Shantou and Foshan cities this month after a four month trial with five post offices in Guangzhou. As of 10 June, the total savings deposited at the five post offices in Guangzhou reached 1.73 million yuan. A local official said the banking procedures and interest rates are the same in the post offices as at the banks. According to Liu Hongru, vice-governor of the People's Bank of China, Chinese banks will do more this year to encourage bank savings. Speaking to XINHUA in April, Liu said interest rates were raised twice last year and banking services were improved. As a result, bank savings deposits rose to 162.3 billion yuan, four times the 1980 figure. [Text] [Beijing XINHUA in English 0142 GMT 18 Jun 86 OW] /12913

THIRD WORLD INSURANCE TALKS--Beijing, 11 June (XINHUA)--The fifth general meeting of the Thrid World Insurance Congress and the third meeting of the Association of Insurance Supervisory Authorities of developing countries will be held simultaneously between 23 and 27 June in Beijing. More than 300 representatives from 51 countries and regions will attend the two meetings, Lin Zhenfeng, a spokesman for the People's Insurance Company of China, told a press conference today. The theme of the meeting will be "Insurance Management in a Period of Crisis." Participants will discuss life insurance, crop insurance, reinsurance, and finance in relation to insurance, Lin said. The previous sessions of the Third World Insurance Congress were held in the Philippines, Argentina, Kenya and Morocco. The past sessions of the Association of Insurance Supervisory Authorities were held in the Philippines and Morocco. According to regulations, the two meetings are held simultaneously every two years at the same place. [Text] [Beijing XINHUA in English 0718 GMT 11 Jun 86 OW] /12913

CSO: 4020/354

## AUTO INDUSTRY'S 'REMARKABLE' SUCCESS DURING SIXTH 5-YEAR PLAN

Beijing ZHONGGUO JIXIE BAO in Chinese 1 Nov 85 p 1

[Reported by Guo Peng [6753 7720] and Zhang Zhongwen [1728 1813 2429]: "The Auto Industry's Success During the Sixth 5-Year Plan is Outstanding; The Outlook for the Future is That of a Long Road of Heavy Responsibilities"]

[Text] The automobile industry which is a important industry, significant for the national economy and the people's livelihood, developed rapidly during the period of the Sixth 5-Year Plan. Product value and production quantity of automobiles increased at the average rate of 15 and 12.7 percent, respectively. The original plan for the updating and upgrading of production and for the technological development was 72 percent fulfilled. There has been a distinct improvement in the quality and in particular the reliability of the products.

In the past 5 years, the China Automotive Industry Corporation focused its work particularly on reforms concerning the quality of its products, the technological level of operations, and on the specialization of certain automobile plants, to everyone's great satisfaction.

Reliability of Chinese-built cars was strengthened. Comparing 1985 with 1982, the average mileage between incidents of car trouble of the nine main car models was extended by 73 percent; quality control was comprehensively instituted; during the Sixth 5-Year Plan, the China Automotive Industry Corporation established eight car inspection agencies at the site of the major automobile factories, and strict control of the quality of manufactured cars was further stepped up. The work of standardization proceeded smoothly. International and ministry standards account for 75 percent of all the presently applied standards. The standards drawn up by the China Automotive Industry Corporation with reference to international standards regarding 30 items for components and parts, and standards for the quality of complete passenger cars and trucks, cover the field to 90 percent.

The main measures adopted during the Sixth 5-Year Plan for further progress in car manufacturing technology were imports. The China Automotive Industry Corporation alone signed 70 contracts for the importation of technologies. Through the importation and development of technologies, the industry has come out with a completely new second generation of car models, such as the Jiefang

141, Huanghe 162, the "Hongyan" brand 18-ton heavy car, the Yanan-brand S 161 13-ton semiheavy car, the Yaojin 131, and the Yaojin 136; the "Shanghai--Santana" and the "BJ/XJ 213" of Beijing, which are both being manufactured through Chinese-foreign joint production, and are also continuously appearing on the roads. The production of vehicles for special uses has also been developed from the tens of models before the Sixth 5-Year Plan to the more than 300 models at present.

During the Sixth 5-Year Plan, the China Automotive Industry Corporation conducted 122 scientific studies of which 94 will be completed by the end of this year. This accounts for 77 percent of the total research topics. Among these studies, the "Study on Reducing Pollution and Improving Oil Consumption in the Jiefang-Brand Cars" was awarded second prize for scientific progress issued by the state.

During the Sixth 5-Year Plan, the automotive industry achieved clear successes, but there is still a great disparity with the advanced international level. The reliability of the automobiles is not yet ideal, progress in the reform toward specialization is still too slow, and the divisivenss between the different departments in the administrative system has an adverse effect on a speedier development of the automotive industry. All these problems are left to the Seventh 5-Year Plan period for intensive efforts and solutions.

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CSO: 4006/505

INDUSTRY

## TECHNOLOGICAL REFORM IN MACHINE INDUSTRY

Beijing ZHONGGUO JIXIE BAO in Chinese 1 Nov 85 p 1

[Reported by Ji Jing [1323 2529] and Ge Yunchi [5514 6663 3069]: "Great Progress in Technological Reform of Machine Industry; Almost 60 Percent of 550 Items of the Country's First Lot of Key Technological Reforms Completed and in Production at the End of This Year"]

[Excerpts] In the last 3 years, China has made great progress in the technological reform of its machine and electronics industries; 550 items of the country's first lot of key technological reforms will be completed and put into production by the end of this year; all items are expected to be basically completed in 1986.

The large-scale technological reform of the machine and electronics industries will cause key enterprises to radiate with youthful vigor and will lay a solid material foundation for the improvement of quality, the diversification of products, the raising of standards, and for higher economic results.

The Ministry of Machine-Building Industry has developed more than 4,000 new products by effecting technological reforms regarding 324 key items and raised the ratio of products that are at the level of international standards of the 1970's and early 1980's from 10 to 26 percent.

Through technological reform, the number of machine tool items was increased from 1,000 to 1,500 items; they comprise the development and production of 30 types of high-precision machine tools and 45 types of numerical controlled machine tools, of which many are of the advanced level of similar types of machines by international standards. A series of large and important items of technical equipment, such as 12 cubic meter electric shovels, large-scale gear drills , etc. have gained a place in Chinese production. Machines for the continuous casting of small square slabs, large hot-mold presses, etc., have already attained the level of similar machinery manufactured in China. Continuous rolling machines for 140 mm diameter tubes, large cold rolling, medium and thick slabbing, rolling of thin slabs, etc. through technological advances, reforms, and joint production the production level have come close to international standards. The capacity for the production of power generating equipment is increasing at an annual rate of 20 percent. It is already possible to manufacture 250,000 kw generating units in large quantities and small lots of 300.000 kw generating units, with imported technology is now being evaluated to manufacture on trial a 600,000 kw generating unit.

Through technological reforms, much progress has also been made in such products as basic machine components and energy-saving machinery. Among hydraulic presses, pneumatic and hydraulic tools and components as well as gaskets and gages for machinery, there are 47 types of products met the levels of that of the 1970's and early 1980's through 24 items of technological imports and reforms. They make up about 20 percent of the total production. In the last 3 years, 770 types of new energy-saving products were developed, which raised the economic benefits for society. Taking 1984 as example, producing and operating Y-series generators of over 3.6 million kw capacity, can save almost 25 million kwh of electricity annually. The production of energy-saving transformers of over 11 million kilovolt-amperes accounted for 25 percent of the production of that year; their installation can save 170 million kilovolt-amperes every year.

Through the technological reform of 24 key items, the Shipbuilding Corporation raised the level of Chinese-made components in the complete ships for export to 60 percent, and furthermore acquired the capability of building 60,000-ton class freighters and oil tankers of over 100,000 tons.

Through technological reforms, the proportion of Chinese-made components in complete ships for export was raised from 30 to 60 percent; the components of ships main engines were increased to 60 percent and in auxiliary engines to 65 percent. The Chinese shipbuilding industry can now build ships of the 60,000-ton class with complex technological features, and is now about to build a super-oil tanker of over 100,000 tons. Great progress has also been made in the manufacture of offshore oil drilling installations; three self-raising drilling platforms have already been built; all have been approved by the international ship classification society. Other large-scale key installations that have been successfully developed were a 6,000 m offshore drill, a 70-ton-meter pile driver, and a 10-ton platform crane.

Through 18 key items of technological reforms, the Automobile Industry Corporation was able to produce new models of motorcars with an average of 15 percent less petroleum consumption per ton-100 km and an extended lifetime of use.

Through the reform in such key factories as the No 1 Automobile Plant and the motorcar factories at Nanjing, Jinan and Beijing, car models have been updated and upgraded and production capacity expanded. Through reforms in factories manufacturing such important parts as carburetors, piston rings, gear boxes, motorcar electric generators, air valves, and springs, savings could be achieved in raw materials and oil consumption, and the lifetime of the engines could be prolonged.

The reform by way of specialization of industries, specially focused on the cities, had the cumulative effect of saving 210 million kw of electricity, 380,000 tons of standard coal, and 30 million tons of water.

According to statistics covering 41 cities, large savings in electricity, coal and water were achieved by adjustments and reorganizations in the four large fields of industry, namely in foundry operations, forging, heat treatment, and electric welding, and by the elimination, up to the end of this year, of about 7,000 factories and stations which operated with high levels of consumption, which caused serious pollution, and which showed poor economic results. Furthermore, reforms were carried out regarding 226 specialized cooperative factories and stations, thereby raising technological levels.

Apart from all the above stated facts, key technological reforms were also carried out regarding mechanized enterprises of the light industry, textile industry, and construction industry and regarding 58 research institutes. These reforms greatly raised the technological level of these sectors, and a number of the research institutes will become bases for research, development, and testing for the various industries.

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CSO: 4006/505

## SMALL-SCALE ENTERPRISES

### HUNAN LEADER DISCUSSES TOWNSHIP ENTERPRISE ISSUES

HK180245 Changsha Hunan Provincial Service in Mandarin 2200 GMT 17 Jun 86

[Excerpts] Vice Governor Cao Wenju said when inspecting some suburban Changsha township enterprises on 17 June that it is imperative to grasp the work of these enterprises in order to achieve steady and coordinated development of the rural economy. The improper practices of certain township enterprises can be criticized, but the most important thing is to provide enthusiastic assistance for them. We must be promoters in developing township enterprises.

The new management in these enterprises have become afraid of policy changes and of severe punishment, and want to close down their operations. On hearing of this, Cao Wenju gave the following views:

1. The state's policy measures for credit balances and for the economy are essential for strengthening macroeconomic control and ensuring coordinated development of the national economy. People should not take a one-sided view of these measures.

2. The fundamental reason for certain opinions in society and the mental misgivings of some people in the township enterprises is that there is a failure to draw clear policy demarcation lines. It is essential to study the policies. Township enterprises rely on regulation by market mechanism for most of their raw materials. A proper amount of spending on the business activities that this involves is essential.

3. Enterprises with high profits must not distribute and spend them all. They must pay attention to retaining development funds and depend on their own accumulation to strengthen themselves. It is wrong just to stress high wages and ignore accumulation.

4. Pay attention to exploiting resources and strengthen lateral economic ties.

He expressed the hope that, in common with the whole province, the city outskirts would liberate still more peasants from the land and organize secondary and tertiary industries in a big way, so as to promote still more vigorous development of the township enterprises.

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CSO: 4006/1116

## FOREIGN TRADE AND INVESTMENT

### BREIFS

**XIZANG FAIR**--Lhasa, 5 June (XINHUA)--Tibet's first regional fair for trade with Nepal shows a business volume of more than 11 million yuan, said officials of the autonomous region here today. The fair, which ran from 24 May to 3 June, displayed nearly 10,000 varieties of goods, including local products of Tibet and articles of daily use, food products, and fruits provided by businesses in Nepal. Half of the Tibet products were varieties of wool. [Text] [Beijing XINHUA in English 0636 GMT 5 Jun 86 OW] /12913

**NEW ZEALAND WOOL VENTURE**--Wellington, 6 June (XINHUA)--A joint China-New Zealand wool scour venture was inaugurated this afternoon at Washdyke, near Timaru City in the south island of New Zealand. This wool scour corporation represented the first major foreign investment of the Chinese textile industry. The agreement concerned was signed last November in Wellington. The Association of New Zealand Cooperative Wool Market contributed 50 percent to the two million NZ dollar (around US$1.15 million) project. The other three equity partners in the venture are China Textile Resources Corporation, Beijing Textile Industry Corporation and China International Trust and Investment Corporation. [Text] [Beijing XINHUA in English 1344 GMT 6 Jun 86 OW] /12913

**PRC-SWEDEN TRADE COMMISSION**--Stockholm, 17 June (XINHUA)--The eighth session of the Chinese-Swedish Mixed Commission for Trade concluded today, with both sides satisfied by the prospect of increased bilateral trade. After reviewing the foreign trade and economic and technical cooperation between China and Sweden, the session recognized there is a great market potential, and called for positive measures to promote it. Last year's total volume of foreign trade between China and Sweden hit a record US$220 million. Mu Chongkai, deputy chief of the third section of the Chinese Ministry of Foreign Economic Relations and Trade, and his delegation arrived in Sweden 11 June and will leave 18 June. [Text] [Beijing XINHUA in English 0540 GMT 18 Jun 86 OW] /12913

**DIRECT TRADE WITH MIDEAST**--Urumqi, 5 June (XINHUA)--The Xinjiang Uygur autonomous region has received formal approval from the Ministry of Foreign Economic Relations and Trade to set up an import and export corporation to conduct direct trade with the Middle East and Gulf states. According to the region's Foreign Trade Bureau, the corporation will be responsible for exporting products from the southern part of the region and importing goods in demand without having to get the approval of the Central Government. The southern part of the region includes Hotan and Kashgar prefectures, and the Kizilsu Kirgiz autonomous prefecture, which produce cotton, fruits, jade, animal by-products, and arts and crafts. This part of the region borders on the Soviet Union, Pakistan, Afghanistan, and India. The crossing at Kunjirap on the Sino-Pakistan border was opened to third-country nationals 1 May and Tuerdat, on the Sino-Soviet border, resumed border trade with the Soviet Union in 1983. The Hotan Airport, which can accomodate large planes, has also been listed as one of the ports for entry and exit. [Text] [Beijing XINHUA in English 0136 GMT 5 Jun 86 OW] /12913

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SPECIAL ECONOMIC ZONES

## BRIEFS

**SHENZHEN BICYCLE EXPORT CENTER**--Shenzhen, 17 June (XINHUA)--Shenzhen special economic zone in Guangdong province is being developed into a major center for the assembly and export of bicycles, a local official said today. The Shenzhen Zhonghua (China) bicycle company--a joint venture run by the zone and a Hong Kong firm--plans to export 200,000 bicycles this year. Bicycle parts will be provided by 21 enterprises in Guangdong, Jiangsu and Zhejiang provinces, the official said. China makes about a third of the world's bicycles, but its bicycle exports account for only 6 percent of the total. [Text] [Beijing XINHUA in English 1358 GMT 17 Jun 86 OW] /12913

CSO: 4020/356

## DELEGATE ADDRESSES INTERNATIONAL LABOR CONFERENCE

OW101926 Beijing XINHUA in English 1442 GMT 10 Jun 86

[Text] Geneva, 10 June (XINHUA)--China's chief delegate to the International Labor Conference (ILC) holds that the fight against unemployment and poverty is a formidable task of global scale and deserves arduous efforts.

Li Yunchan, head of the Chinese Delegation and also a vice-minister in charge of labour, said in a speech today at the 72nd International Labor Conference that Third World countries are confronted with unemployment and poverty brought on by the worldwide economic recession, the irrational international economic order, slow economic growth and increasing foreign debts. The key to eliminating unemployment and poverty lies in promoting production and stimulating economic growth, making it essential to adopt strategies and policies to spur development, he said.

Changes in the present international economic order and promoting international cooperation, Li said, are also vital for economies to develop and to overcome unemployment and poverty in Third World countries. He urged world governments to push North-South dialogue and to strive for a new and fair international economic order.

"At present, the most urgent task is to settle, in a proper and rational way, the issues of the debt crisis and trade protectionism which seriously hamper the development of the Thrid World," he said.

Li said in China's economic development "there has emerged a new situation of sustained, steady and balanced development in China's national economy. This in turn has created favorable conditions for the expansion of employment and raising living standards."

From 1981-86, China has provided jobs for 35 million people, of which 50 percent have been absorbed through development of the collective and individual sectors of the economy, Li said.

The per capita income of China's peasants has increased an average of 13.7 percent annually in the past five years while urban workers' incomes have increased 6.9 percent, Li said.

/12913
CSO: 4020/354

## LABOR AND WAGES

### COALMINERS OBTAIN IMPROVED LIVING CONDITIONS

OW110629 Beijing XINHUA in English 0604 GMT 11 Jun 86

[Former "Coal Blacks" Join the Jet Set--XINHUA headline]

[Text] Taiyuan, 11 June (XINHUA)--Model coal miner Wang Yueshan was thrilled when he was included in a holiday tour of Poland last year.

Wang, 29, who works in the Datong coalfield in North China's Shanxi province, said: "I never dreamt that I, an ordinary miner, would get the opportunity to have a holiday abroad."

He was chosen as a member of a miners' tour group--the first sent by China--for a one-month trip to Poland. It was organized by the All-China Federation of Trade Unions.

Zhang De, a Datong union official, said: "This is one example of how miners, who were once looked down upon and regarded as being dirty and 'coal black', are now well cared for by the government and enjoy social respect and decent welfare."

Chinese miners enjoy an annual paid holiday of between one and three months depending on their production quotas, length of service and health.

Every year, 2,000 miners from the Datong coalfield are offered a holiday at miners' rest homes in popular tourist spots in different parts of China. They pay only a third of the cost of their meals during these holidays. Other expenses are paid for by the administration, which spends more than a million yuan a year on the trips.

The coalfield's 13 mines, which employ 130,000 people, also run convalescent homes. Miners receive a subsidy from the administration to stay at them.

Apart from this, the administration runs subsidized canteens, hostels, nurseries, hospitals, schools and cultural and sports facilities.

Zhang said most single workers lived in spacious and comfortable hostels. Each paid only one yuan per month. The average wage of miners and other employees of the administration was more than 130 yuan a month.

Canteens serve 24 hours a day and offer many dishes. Laogou mine's canteen offers its miners a choice of more than 20 dishes. Food is cheap, and underground workers are given a free meal during their shifts.

Zhang said miners enjoyed free medical care, and had annual health check-ups. Full wages were paid to miners during their first six months of sick leave, and they received between 60 and 100 percent of full pay according to length of service after half a year.

If a miner died on duty or through industrial injury, his family received 50 percent of his pay until his children were 18 years old. If the miner had no children, his widow was taken care of by the administration for the rest of her life.

A miner becoming disabled through industrial injury received 90 percent of pay and nursing fees, and was provided with nursing staff and offered a wheelchair if necessary.

When a miner retired, he received a pension of 75 percent of his wages plus retirement subsidies.

The Datong coal mine has an old folks' home to care for childless miners and their wives.

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## LABOR AND WAGES

### BRIEFS

MORE MANPOWER IN INDUSTRY--Beijing, 26 April (XINHUA)--Surplus manpower is shifting from farming into industry and service trades in the Chinese countryside, according to today's ECONOMIC DAILY. Quoting the State Statistic Bureau, the paper said rural manpower increased by 16.4 percent to reach 370,650,000 people in the Sixth 5-Year Plan that just ended. Manpower increases for farming, industry and service trades were 6.9 percent, 73.7 percent and 135 percent, respectively. The proportion of people engaged in farming decreased from 89.2 percent in 1980 to 81.9 percent in 1985; while that in industry went up from 7 percent to 10.4 percent, and service trades, from 3.8 percent to 7.7 percent. But the proportion in the coastal regions was much higher than in the western area of the country, the paper said. In 1985, the rural social output value was 619.59 billion yuan, up 87.3 percent from 1980 after price adjustments. It averaged 1,671 yuan for each able-bodied farmer. [Text] [Beijing XINHUA in English 0748 GMT 26 Apr 86 OW] /12913

CSO: 4020/354

POPULATION

## BRIEFS

COMMITTEE ON AGING--The Jilin Provincial Committee on Aging was established in Changchun today. Gao Di, Wang Daren and other leading comrades attended the inaugural meeting to extend congratulations. The committee is a social organization organized by relevant departments of the provincial government, mass organizations, and scientific research organ. Its major tasks are to conduct investigations and studies on the major problems concerning aging, work out overall plans for solving them in a comprehensive manner, and organize forces to make coordination for inspecting them. Song Jiehan, member of the Central Discipline Inspection Commission, and Yang Zhantao, retired veteran cadre, serve as honorary chairmen of the committee. Eleven veteran comrades, including (Shi Lingqi), Cheng Shengsan, and Jin Minghan, serve as advisers. Gao Wen, chairman of the committee, spoke at the inaugural meeting. He called on the entire society to show concern for and attach importance to the issue of aging, which is a new undertaking; carry forward China's good tradition of respecting, loving, and supporting the elderly people; and continuously open up a new situation in the work concerning the issue of aging. [Text] [Changchun Jilin Provincial Service in Mandarin 0930 GMT 14 Jun 86 SK] /8918

CSO: 4006/1116

TRANSPORTATION

## BRIEFS

**PRC TRANSPORT NETWORK**--Beijing, 18 May (XINHUA)--Coordinated-traffic companies in 26 of China's provinces, municipalities, and autonomous regions are forming a nationwide network of through transport by land and water and air, according to today's overseas edition of PEOPLE'S DAILY. There are now in China more than 250 through-traffic companies or enterprises at and above the county level, and over 2,000 township coordinated-transport stations, says THE DAILY. Meanwhile, organizations in charge of the coordination between enterprises of production, supply, sales and transportation have been set up all over the country. Furthermore, more than 2,500 new freight truck routes extend to the remote and backward areas of the country to help scatter and distribute the goods transported by train or bus, the paper says. [Text] [Beijing XINHUA in English 0533 GMT 18 May 86 OW] /12913

**LHASA-KATMANDU AIRLINKS**--Katmandu, 23 May (XINHUA)--Representatives of the National Airlines of China and Nepal expressed the hope here today that the airlinks between Lhasa, capital of China's Tibetan autonomous region, and Katmandu would be established as early as possible. The views were reflected in the minutes of talks signed here this afternoon by Lu Guanghua, representative of Civil Aviation Administration of China (CAAC), and I.K. Pradhan, representative of Royal Nepal Airlines Corporation (RNAC). Both sides agreed that the airlinks would contribute to the promotion of tourism, trade and other exchanges between the two nations. The Chinese side indicated that certain limited number of non-scheduled chartered flights may be operated by both airlines on the temporary basis before conditions are ripe for regular services. The Nepalese side expressed appreciation and hoped that certain chartered flights would be operated at an early date. Both sides agreed to report the matter to their respective governments for consideration. The five-member CAAC expert team arrived here on 18 May and left for home today. [Text] [Beijing XINHUA in English 1520 GMT 23 May 86 OW] /12913

CSO: 4020/357

## CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

## BRIEFS

**YUGOSLAV PREMIER ON ECONOMIC POLICY**--Belgrade, 13 June (XINHUA)--The government prefers economic measures to administrative ones in efforts to check the country's runaway inflation, new Yugoslav Premier Branko Milulic said here today. At a gathering of journalists here, Mikulic, who took over as prime minister last month, gave a detailed account of the government's position on steps to deal with economic problems. Mikulic said the role of commodity production in the market is recognized both in capitalist and socialist countries. Thus, he added, the way to get the country out of economic difficulties is not to let the prices fluctuate freely or for the government to freeze prices and incomes, but to combine "economic incentives and compulsory measures." To bring down inflation, the premier explained, the new government will strive to stimulate commodity production and raise labor productivity by introducing proper policies. In addition, Mikulic said, in a related effort, widespread taxation and other compulsory measures should be taken to encourage productive employment and limit unproductive investment and excessive increases in consumption and individual income. In response to questions about the development of nuclear power stations, Mikulic said a prudent approach must be taken toward the issue. The government will conduct careful feasibility study while taking into consideration other energy sources, environmental protection and human health, he said. [Text] [Beijing XINHUA in English 0630 GMT 14 Jun 86 OW] /12913

CSO: 4020/356

## FIRST QUARTER IMPORTS FROM PRC UP 29 PERCENT

HK140604 Hong Kong SOUTH CHINA MORNING POST in English 14 Jun 86 Business Section p 1

[Text] Imports from China leapt 29 percent in the first four months of this year compared with the same period last year, underlining Hong Kong's increasingly important role as an outlet for goods produced in China.

According to the latest figures from the Census and Statistics Department, imports from China from January to April amounted to $21.4 billion, an increase of $4.8 billion over the year-ago period.

The most notable gains were in the categories of clothing, which jumped 50 percent, textiles, up 35 percent and miscellaneous manufactured goods such as toys. games and sporting goods, which leapt 49 percent.

Exports to China during the same period, however, continue to reflect the Chinese Government's persistent worries over shortage of foreign exchange.

Exports were worth $4.4 billion, or 16 percent less than the year-ago period.

Shipments of office machines and data processing equipment, telecommunications and audio equipment, and electrical machinery and appliances plunged 93 percent, 44 percent, and 43 percent, respectively.

Textile exports, however, jumped 41 percent.

The value of re-exports to China declined 33 percent, from $16.4 billion to $11 billion.

The value of domestic exports to countries other than China and the U.S. reflected the favourable impact of the depreciation of the Hong Kong dollar against the yen and major European currencies.

Exports to West Germany in the first four months totalled $2.8 billion, representing a 22 percent rise over the same period last year. Those to Japan rose nine percent to $1.4 billion. Exports to Britain, Japan, Canada and France were also up. Exports to the U.S., Hong Kong's largest export market, rose six percent to $17.1 billion.

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CSO: 4020/358

## CHINA DAILY CITES ECONOMIC INDICATORS REPORT ON ECONOMY

HK140210 Beijing CHINA DAILY in English 14 Jun 86 p 2

[Text] Hong Kong--A new period of rapid growth in China's external trade--to which Hong Kong will make important contributions--will follow the current cutback caused by low oil prices and excessive imports, Standard Chartered Bank's economists predicted in the latest issue of the HONG KONG ECONOMIC INDICATORS.

The report noted that the bulk of China's export go to industrialized countries, and, given the relatively rapid growth of these exports, China has been expanding its market share every year since 1978. "Exports have been increasing as a proportion of China's national income, from 5.6 percent in 1976 to 12 percent in 1985--although this has been due partly to the depreciation of the RMB yuan."

The report cited some improvement in the first quarter of this year compared with the first quarter of 1985. Exports rose 4.3 percent in U.S. dollar terms, while imports rose 3.6 percent. At the same time, car and TV imports, which soared to what were considered excessive levels in 1985, were successfully reduced by half.

Reductions in exports of crude oil and oil products were more than offset by strong growth in agricultural and textile exports stimulated by greater Western demand, the report said.

Summarising Hong Kong's role in 1985 China trade, the bank's economists said Hong Kong consumed some 13 percent of China's exports while supplying 5 percent of its imports and handling another 14 percent routed through Hong Kong.

"There may also be a significant amount of other China trade arranged with the help of, but not touching, the territory," the report added. "Hong Kong is a valuable supplier of mercantile and light industrial expertise and capital and has a bridging role to play in China's ever-growing imports of advanced technology and machinery."

The bank stated that the involvement of Hong Kong manufacturers in China plays both a direct and catalytic role in increasing the volume and competitiveness of China's exports, "but it seems that the full potential is still to be reached."

Obstacles noted by Hong Kong industrialists include "insufficient freedom in wage and hiring policies and complex and too rapidly changing investment regulations and policies."

Commenting on recent concern that Hong Kong might be affected adversely by a drop in exports to China represent about 12 percent of Hong Kong's total domestic exports, a 10 percent drop in the former would reduce the latter by about 1.2 percent, and would lower GDP growth by some 0.29 percent. Each 10 percent drop in re-exports to China would mean reductions of about 4.4 percent in total reexports and roughly 0.26 percent in GDP."

The report also said the objectives of China's Seventh Five-Year Plan--to complete reform of the economic system, to ensure steady economic growth by investing in key sectors and in technology and manpower, and to continue to improve living standards--"appear sound and reassuring."

The economic systems and living standards of China and Hong Kong will grow closer together with successful attainment of these objectives, and this "will clearly be beneficial to Hong Kong."

China's targets for 1986 to 1990--8.1 percent average growth for exports and 6.1 percent for imports--are moderate, said the bank, which suggests that a continuing trade deficit may be tolerated, as last year the trade gap (deficit as a proportion of imports) was 35.3 percent.

Priority will continue to be given to production for export, while new stress has been placed on import substitution, the report added.

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CSO: 4020/358

## INDUSTRIAL PRODUCTION REPORTED ON REBOUND

OW051445 Beijing XINHUA in English 1411 GMT 5 Jun 86

[Text] Hong Kong, June 5 (XINHUA)--Hong Kong's industrial production and sales have recovered strongly this year after a sluggish 1985, according to the latest edition of the magazine, HONG KONG MARKET, published on Wednesday.

Industrialists here are more optimistic about prospects than they were at the beginning of the year. They now believe Hong Kong's exports will increase by 10 percent this year, compared with an official forecast of 7.5 percent.

The magazine said orders for Hong Kong products--particularly in the textile industry--had been pouring in. Some garment factories were reported to have received orders for as far ahead as next spring.

Increases have also been reported in demand for Hong Kong's electrical products, toys and watches. At the European watch and jewelry fair held in Switzerland in April, Hong Kong watch manufacturers received record orders.

Market demand has boosted the enthusiasm of factories, which are now reported to be operating at 75 percent of capacity on average.

As a result, Hong Kong's exports in the first four months of this year amounted to 40.49 billion Hong Kong dollars (about 5.2 billion U.S. dollars), up 4.8 percent compared with the same period last year.

The magazine attributed the improvement of Hong Kong's industry to economic growth in the United States and West Europe, the fall in the U.S. dollar, to which the Hong Kong dollar is pegged, increased co-operation between Hong Kong and the Chinese mainland and a good supply of raw materials.

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CSO: 4020/358

HONG KONG

## BRIEFS

**INDUSTRIALIST ON ECONOMIC MEND**--Hong Kong, June 6 (XINHUA)--Hong Kong's economy is now on the mend after hitting the trough towards the end of last year, a leading Hong Kong industrialist said here today. Lawrence Chu, president of the Chinese Manufacturers' Association of Hong Kong, said that improvement shown in the major export markets and the drop in oil price are stimulating the recovery of Hong Kong's economy. The value of Hong Kong's domestic exports in April this year registered an 18 percent increase over the same month in 1985, he said. Chu was addressing the opening ceremony of the seventh machinery and materials exhibition (Mex '86) today. He encouraged the manufacturers to review their resources and re-invest in new plant and equipment. Wong Po Yan, honorary president of the association, said at the ceremony that technological improvement was essential for Hong Kong to sustain its competitiveness in the world market. Much bigger in size than Mex '85, Mex '86 has attracted more than 100 exhibitors from Britain, the Chinese mainland, Denmark, Finland, France, the Federal Republic of Germany, Holland, Hong Kong, Italy, Japan, Sweden, and the United States as well as China's Taiwan Province. [Text] [Beijing XINHUA in English 1506 GMT 6 Jun 86 OW] /6662

**NEW ZEALAND PREFERENCE SYSTEM STATUS**--Hong Kong will cease to be a beneficiary of the New Zealand Generalised System of Preferences (GSP) on July 1, a spokesman for the Trade Department said yesterday. This decision came in the wake of New Zealand's new policy on GSP. Under this policy, developing countries with per capita GNP at or above 70 percent of New Zealand's will be graduated from the scheme. These items include certain fabrics, motors, watches, electronic parts and artificial flowers which complement New Zealand's own manufacturing base. [Text] [Hong Kong HONG KONG STANDARD in English 20 Jun 86 p 1 HK] /6662

**FRG COMPANIES EXPAND BUSINESS**--Hong Kong, May 24 (XINHUA)--The 10 percent increase in the combined volume of business concluded here by Federal German companies since 1983 indicates their "growing confidence" in the territory's future, Dr Alfred Kuhn, consul-general of Federal Germany, said today. There are about 250 Federal German companies active in Hong Kong, he said. In an interview with XINHUA, he expressed his confidence that Hong Kong would remain a most important international manufacturing, trading and banking center after the signing of the Sino-British joint declaration on Hong Kong's future. Dr Kuhn said that Hong Kong's fucntion as a busy gateway to Chinese mainland adds importance his country attaches to it. According to official statistics, in 1985 Federal German exports to China passing through Hong Kong amounted to 1,066 million Hong Kong dollars, and the mainland channeled exports worth 1,106 million through Hong Kong to Federal Germany. [Text] [Beijing XINHUA in English 1124 GMT 24 May 86 OW] /6662

CSO: 4020/358 END

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16 JULY 1986

# China Report

## ECONOMIC AFFAIRS

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PROVINCIAL AFFAIRS

## HAN PEIXIN ADDRESSES JIANGSU ECONOMIC MEETING

OW160805 Nanjing Jiangsu Provincial Service in Mandarin 1000 GMT 15 Jun 86

[Excerpts] A provincial meeting sponsored by the Jiangsu Provincial People's Government to discuss the restructuring of the urban economic system took place in Nanjing 11-15 June. The meeting analyzed the situation of reform, drew up projects of reform, and discussed ways and means to promote lateral economic ties.

Present at the meeting were mayors and leading members of relevant departments from various cities under the jurisdiction of the provincial government as well as Changshu and Taizhou Cities, and leading members of some counties, enterprise groups, and some relevant provincial organs.

Han Peixin, secretary of the Jiangsu Provincial CPC Committee; and Gu Xiulian and Chen Huanyou, respectively governor and vice governor of Jiangsu, addressed the meeting.

Han Peixin stressed in his speech that party committees and governments at all levels must keep in mind the overall situation of reform, give top priority to reform, and take the initiative in accomplishing various projects. He added that all localities and departments must gear their work to the overall needs of reform, and that each project must reflect the spirit of reform.

Han Peixin urged leading cadres at all levels to intensify their theoretical study, do a still better job in conducting investigation and study, constantly study the situation of reform, learn how to solve new problems, heighten their understanding of the need of reform, and exercise more effective leadership over reform.

He pointed out: We must consider promoting lateral economic ties a major project of reform, and be prepared to carry out more successful reforms next year.

Underscoring the far-reaching significance of lateral economic ties, Governor Gu Xiulian analyzed the situation of economic cooperation among various regions and enterprises, and commented on further promoting lateral economic ties. She pointed out: promoting lateral economic ties is a major task in restructuring the economic system. On the basis of heightening our understanding and examining our experiences, we must ensure the development of lateral economic ties according to the principles of voluntary participation, equality, and reciprocity.

Expressing his view on implementing the meeting's guidelines, Chen Huanyou stressed that we must continue to achieve unity in thinking and heighten our understanding, provide guidance according to the nature of different projects in different locations, pay attention to practical results, and promote lateral economic ties according to the principles of voluntary participation, equality, and reciprocity.

/7051
CSO: 4006/1114

## SHANDONG'S LIANG BUTING ATTENDS ECONOMIC WORK FORUM

SK140722 Jinan Shandong Provincial Service in Mandarin 2200 GMT 13 Jun 86

[Text] A provincial economic work forum was held in Zhangdian in Zibo City from 6 to 12 June. The forum analyzed the province's economic work situation in the first 5 months of this year, affirmed achievements, exposed contradictions, thoroughly discussed major problems concerning macroeconomic control and microeconomic flexibility cropping up in the course of industrial development, worked out relevant regulations on solving these problems, and made arrangements for economic work in the latter half of this year.

Attending the forum were 54 people, including Liang Buting, secretary of the provincial CPC Committee; Li Changan, deputy secretary of the provincial CPC Committee and governor of the provincial government; Jiang Chunyun, deputy secretary of the provincial CPC Committee; Yang Xingfu, Liu Peng, and Gao Changli, Standing Committee members of the provincial CPC Committee; Ma Shizhong, Ma Zhongchen, Tan Ginglian, and Li Ye, vice governors of the provincial people's government; Song Yimin and Zhu Gimin, advisers to the provincial government; responsible comrades of provincial-level departments in charge of overall economic work; secretaries of city and prefectural CPC Committees; and secretaries of the CPC Committees of the Jinan Railway Bureau, the Gilu Petrochemical Company, and the Laiwu Iron and Steel Plant.

Liang Buting, secretary of the provincial CPC Committee, delivered an important speech at the forum.

In their speeches, leading comrades of the province and cities explained according to full and accurate materials that the policies on reform and the open policy formulated by the CPC Central Committee have brought vitality to Shandong's economy. The economic situation in the first 5 months of this year was very good. The province maintained a steady increase in industrial production and made greater breakthroughs in foreign export trade. The rural economy is developing in a sustained manner. The circulation channels have been further expanded. Urban economic restructuring has been deeply facilitated. Practice the past 5 months have proven that the ideology for guiding the province's economic work accords with the principles and policies of the central authorities as well as the province's actual conditions. Constantly and persistently in accordance with the principle of paying equal attention to the growth rate, economic results, and reserve strength and the principle of ensuring increases in the growth rate, economic results, and revenue at the same pace, the CPC committees and the governments at all levels put the stress on controlling the extra-high growth rate on the basis of ensuring an appropriate growth rate. They have paid attention to strengthening and improving macroeconomic control and controlling the excessively high increase of social demands on the premise of ensuring an overall supplies for society so that the situation of bringing to a halt and seeking uniformity in everything was avoided in maintaining an appropriate growth rate. The city and prefectural leading organs and the provincial-level departments in charge of overall economic work correctly handled the relations between the macroeconomy and the microeconomy, creatively carried out their work in line with actual conditions, paid attention to enlivening the microeconomy as well as strengthening the macroeconomy, and thoroughly carried out investigations and studies to solve new problems cropping up in the course of enlivening the microeconomy. They formulated relevant regulations with regard to the use of bonuses after the ways reform, the management contract system, the division of profits, and the regular economic activities of enterprises.

The forum held: The leading comrades of the cities, prefectures and counties should assume overall responsibility for the entire economic situation and firmly grasp industrial production on the premise of never ignoring grain production, be good pianists in playing economic songs, and make new progress in the art of leadership.

The forum held that the cities and prefectures where cotton production is considerably concentrated have made notable achievements in readjusting and reducing the cotton-growing areas by a large margin.

After discussing the trial regulations on further enlivening the enterprises formulated by the provincial CPC Committee and the provincial government, the participants unanimously held that these documents accord with the relevant policies of the CPC Central Committee and the State Council as well as the province's actual conditions, and will play an important role in further mobilizing the enthusiasm of the staff members and workers, enterprises, and localities, enlivening the enterprises, and facilitating the economic development.

Through discussions the forum made arrangements for economic work in the latter half of the year and called on leaders at all levels to further firmly, thoroughly, and accurately grasp economic work in order to ensure the overall implementation of this year's economic plan. The arrangements for economic work in the latter half of this year are as follows:

First, we should implement and perfect the reform measures in order to arouse the enthusiasm of the localities, enterprises, and staff members and workers.

Second, we should achieve the allocation and supply of funds, energy resources, and materials, and make market regulation serve economic development.

Third, we should practice economy, tap the potentials of enterprises, and reduce consumption.

Fourth, we should strengthen enterprise management in order to enhance their internal digestion capacity.

Fifth, we should pay attention to upgrading the quality of products and the competitiveness of products.

Sixth, we should develop lateral economic cooperation in order to upgrade the level of production.

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CSO: 4006/1114

ECONOMIC DEVELOPMENT ZONES

## COASTAL CITIES ACHIEVE MARKED INVESTMENT SUCCESSES

HK190944 Beijing JINGJI RIBAO in Chinese 9 Jun 86 p 2

[Article by the Trade and Commodity Price Department of the State Statistical Bureau: "Open Coastal Cities Score Remarkable Results in Absorbing Foreign Investment"]

[Text] China's open coastal cities absorbed a total of 769 investment projects from foreign firms in 1985, 343 more than the previous year; total investment by foreign firms according to agreements already signed reached $1,717 million, an increase of 86.8 percent over the previous year; and the actual investment by these firms as $293 million.

Of projects with direct foreign investment according to new agreements, 347 were joint-venture projects, 178 more than the previous year. The total investment by foreign firms was $587 million, an increase of 40.4 percent. There were 417 cooperation projects, 165 more than the previous year, with foreign investment of $1,129 million, an increase of 130 percent. Of projects listed in the new agreements, 382 were industrial projects, most of which were medium-sized and small projects. There were 165 real estate and public utility projects, including 39 tourist projects.

The foreign firms which signed agreements with these cities came from 23 countries and regions, including Singapore, Thailand, the Philippines, Japan, the United States, Canada, Australia, France, England, Italy, Switzerland, Finland, Hong Kong and Macao.

Guangzhou, Shanghai, Tianjin, and Dalian, the four cities with better investment environments and basic facilities, are far ahead in absorbing foreign investment and in the scope of joint ventures when compared with the other cities.

In 1985, Guangzhou signed 297 agreements with foreign firms for direct investment, 156 more than the previous year. Total investment by foreign firms according to agreement was $482 million, an increase of 120 percent, and the actual investment was $102 million. Nearly half of the projects listed in the new agreements were industrial projects and nearly a quarter of them were real estate and public utility projects (including tourist hotels). The number of tourist projects was reduced from 14 in 1984 to 8 in 1985. Of the 297 projects, 277 involved Hong Kong and Macao investors. The number of countries and regions involved in direct investment rose from 5 in 1984 to 8 in 1985.

Shanghai signed 96 direct investment agreements with foreign firms in 1985, 53 more than in 1984. Total investment by foreign firms according to agreement was $762 million, an increase of 130 percent, and the actual investment was $102 million. In the new agreements, investment in industrial projects registered an increase. The number of new industrial projects was 39, 25 more than in 1984. Of the industrial projects which have been put into production, a number of "export-type" enterprises have appeared which are capable of balancing their foreign exchange revenue and expenditure. At present, Shanghai is absorbing foreign investment from 15 countries and regions, including Hong Kong, the United States, Japan, France, and Singapore.

Tianjin signed 88 direct investment agreements with foreign firms, 42 more than in 1984. Total investment by foreign firms according to agreement was $68 million, and the actual investment was $32.5 million. In their talks with foreign investors, Tianjin's economic and trade departments encouraged foreign firms to invest in more industrial projects. Thus, 52 new agreements were signed for industrial projects in the whole year. In 1985, there were already 55 Chinese-foreign joint-venture and cooperative enterprises in this city, which had been put into production, and 30 of them had been put into production for over half a year. Of these enterprises, 27 are profitable enterprises, including the Chinese-French Winery Limited, the Tianjin Li Ming Cosmetics Industrial Company, the Tianjin Jing Cai Photo Developing and Printing Limited, and Kobe Bar.

Dalian signed 50 direct investment agreements with foreign firms in 1985, 31 more than the previous year. Total investment by foreign investors was $142 million according to agreement, an increase of 450 percent. There were three great changes in Dalian's efforts to absorb foreign investment: A number of agreements on large-scale projects were signed, including the Jiuzhou Hotel Limited, the Dalian Jincheng Hotel, the Tianhe Hotel, and the Dalian Yingshan Hotel, each with an investment of over $10 million; the number of countries and regions involved in the agreements rose from 2 to 9, inlcuding Hong Kong, Japan, the United States, England, Sweden, and West Germany; of the 69 joint-venture and cooperative enterprises listed in the agreements, 27 have been put into production. By the end of 1985, they created a total of $2.22 million's worth of foreign exchange.

In 1985, apart from the above-mentioned 4 cities, the other 10 open coastal cities also signed a total of 238 agreements with foreign firms, by which foreign investors would make an investment of $263 million. These were increases of 34.5 and 26.4 percent respectively over the previous year. The actual investment made by foreign investors in the whole year was more than $50 million.

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## GUANGDONG TOWNSHIP ENTERPRISE DEVELOPMENT PLANS

Beijing ZHONGGUO XIANGZHEN QIYE BAO in Chinese 30 Nov 85 p 2

[Text] According to available information, a responsible person of the Guangdong Provincial Township and Town Enterprise Joint General Company has recently said, the tentative plan for Guangdong's township and town enterprise development during the Seventh 5-Year Plan is: Taking a basic stand on agriculture and serving agriculture, strategically developing service industries such as agricultural products processing industries, and the storing, packing, and transportation of such products, and simultaneously developing other processing industries such as mining, small-scale hydroelectric power, construction materials, as well as those which complement the systematic operations of large industries and serve exports.

According to requirements of the domestic and international market, the developmental tendency of Guangdong's township and town enterprises within the 5-year period ahead is:

To take advantage of the beneficial conditions of Guangdong's fine environment for investment and the fact that it's adjacent to Hong Kong and Macao and other coastal areas have already preliminarily formed an economic open zone; to adopt various forms such as importing from without and linking up within to develop various joint-capital and joint-management enterprises, plus the "three-importation and one-compensation" enterprises.

To develop agricultural product processing industries, including foodstuff processing, medicinal herbs processing, bamboo, vine, grass, sunflower seeds, palm and lumber processing, etc.

To put emphasis on developing products that complement the systematic operations of large industries and products for export, to develop home appliances, plastic products, iron and wood furniture, interior decoration ornaments, cultural and educational articles, and trades such as fashions, leather, textile, and hardware.

To establish small-scale mining, refining, small-scale hydroelectric power and construction materials industries.

To develop the construction industries, commerce and service industries among the township and town enterprises.

To import advanced technologies and equipment, train personnel; to launch technical cooperation with scientific research units and universities and colleges, organize production and scientific research combines, so as to ameliorate the conditions of backwardness on the part of the township and town enterprises and technologies and their lack of talents.

Along with all this, Guangdong Province will further reform the management system of the township and town enterprises, and, under the premise of making no changes in respect to the nature of existing ownership and organizational jurisdiction, gradually carry out the assigning of various trades to their corresponding departments for control, further expand the reform, and turn on the green light for the township and town enterprises in respect to their capital, finance, taxation, resources, personnel, information, technologies, supplies and marketing as well as transportation, so as to enable them to develop forward in a healthy manner.

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# BEIJING'S SEVENTH 5-YEAR PLAN FOR ECONOMIC, SOCIAL DEVELOPMENT

Beijing BEIJING RIBAO in Chinese 25 May 86 pp 1-3

[Text] Having fulfilled and over-fulfilled the Sixth 5-Year Plan, the Beijing Municipality is launching its Seventh 5-Year (1986-1990) Plan on its way to socialist modernization. The Seventh 5-Year Plan is a critical period in which the municipality's economic, scientific and technological, and education systems will be completely reformed. It is also an important period during which material and technological groundwork must be laid if Beijing is to advance socially and economically in the 1990's. Formulating an overall plan and carrying it out satisfactorily over the next 5 years has profound significance for accomplishing the magnificent objectives set by the 12th CPC Central Committee for completion by the turn of the century, further implementing the four targets for capital construction issued by the Secretariat of the Central Committee, ensuring economic prosperity in the next 10 years, and building a modern socialist capital city with Chinese characteristics.

## Chapter 1. Conditions For Development

Over the past 5 years, guided by the line adopted by the party since the 3d Plenum of the 11th CPC Central Committee, we have carried out the policy of "readjustment, reform, consolidation and improvement," implemented the central government's four directives on the construction of the capital city, resolutely and steadfastly carried out the reforms called for in the "Overall Plan for the Urban Development of Beijing" As a result, a good deal has been achieved in the construction of the material and spiritual civilizations: The national economy has enjoyed sustained and fairly rapid growth; a basic balance has been effected in such major proportionate relations as those between production expansion and the people's livelihood, between industry and agriculture, and between light and heavy industry. Economic efficiency has been climbing every year and significant headway has been made in science, technology, and education There has been social stability; living standards have improved markedly among both urban and rural residents, and the capital city has taken on a new look.

### 1. Infrastructure Has Been Adjusted Substantially And Productivity Is Surging

In 1985, gross value of industrial and agricultural output (GVIAO) for the municipality as a whole hit 34.96 billion yuan, for an average annual growth rate of 8.7 percent, while gross domestic product (GDP) and national income reached 25.7 billion yuan and 19.4 billion yuan, respectively, for an average annual growth rate of 10.8 percent and 9.8 percent. The industrial structure has undergone sharp changes, with tertiary industry accounting for 33.3 percent of the gross domestic product of the municipality, up from 26.8 percent in 1980.

### 2. Construction of Infrastructure In The Municipality Has Been Stepped Up And Gratifying Changes Have Occurred in the Urban Landscape

In the Sixth 5-Year Plan, Beijing completed 23.4 billion yuan worth of fixed assets investments, more than a one fold increase over the Fifth 5-Year Plan. Housing construction of all types yielded 39.42 million square meters of floor space, an increase of 83 percent over the Fifth 5-Year Plan. Of this, 22.67 million square meters were residential housing, a 120 percent increase. Daily water supply capacity went up 340,000 tons, while daily gas supply capacity increased 500,000 cubic meters. Over 70 percent of residents in the immediate suburbs now use coal gas for cooking. The newly installed telephone exchange can handle 960,000 telephones, 437 kilometers of urban roads were built, 10 million trees were planted, and 4 million square meters were seeded with grass. A host of rivers and lakes were cleaned up and dredged and a number of factories that seriously polluted the environment were relocated. To a certain extent the urban environment has improved.

### 3. Significant Progress Has Been Made In Education, Science and Technology, Public Health, Culture, And Sports

Education has expanded rapidly. Recruitments by municipal institutions of higher education went up 2.3-fold from 1980 to 1985, while recruitments by institutions of higher education jumped nine fold. Reforms in the structure of secondary education have been remarkably successful; as a result, the struggle for parity between enrollments in general senior high schools and those in technical secondary schools succeeded 2 years ahead of time. Elementary education has become universal throughout the municipality while junior secondary education is now largely universal in the townships. There has also been a marked increase in nursery enrollments.

Reforms in the scientific and technological system have begun to pay off. Scientific research has been highly fruitful, capturing a total of 2,100 municipal scientific and technological achievement awards over the past 5 years.

Medical services and public health have registered solid gains, with hospital beds increasing almost 10,000 in the 5-year period.

Beijing has done well in culture and sports. Thirty-six cultural centers, libraries and museums were built and the television viewing area has been enlarged to cover 89 percent of the municipality. A number of excellent works and plays were staged, including "Four Generations Under the Same Roof," and the number of designated historic preservation sites increased to 622. Sports has received more and more public attention. In some events Beijing has chalked up an outstanding record at home and abroad.

## 4. Urban and Rural Markets Are Flourishing and Both Foreign Economic Relations And Trade And Tourism Have Taken Big Strides Forward.

In 1985, gross social commodity retail sales were worth 12.79 billion yuan, up 1.1-fold over 1980. Commercial, restaurant, service, and repair establishments totalled 82,000, a 3.5-fold increase over 1980. Exports were valued at $3.08 billion in the 5-year period, a gain of 77.5 percent over the Fifth 5-Year Plan. Tourism has grown rapidly; Beijing was visited by 937,000 tourists and earned $330 million in foreign exchange. With the number of hotel beds now increased to 380,000, it has tentatively eased the problem of hotel accommodation shortage that used to plague travelers to China.

## 5. Population Growth Is Starting To Come Under Control And Living Standards Have Improved Noticeably

In late 1985, Beijing's permanent population stood at 9.58 million and its work force reached 3.823 million. By and large, the municipality's youth employment problem has been resolved. There has been a significant rise in workers' wages which, coupled with price subsidies, amounted to an increase of 34.4 percent over 1980, after adjusting for inflation. Per capita net earnings by peasants also went up 1.5-fold over 1980. Living conditions for both urban and rural residents have changed for the better. Throughout the municipality an excellent situation has emerged characterized by an elevated moral tone, improved law and order, stable livelihood for the people and a spirit of striving.

Be that as it may, Beijing's material basis for social and economic development remains rather shaky. There is a serious shortage of water, energy and raw material resources. The gap between infrastructural development and the pace of urban growth has not been bridged. Environmental quality continues to deteriorate. Educational development and the training of qualified personnel have yet to gear themselves to the needs of building a modern capital. Technological progress remains tardy. The municipality's industrial structure and product mix are still ill suited to the changes in production development and public consumption patterns. Tertiary industries have not grown as fast as they should and the citizens are still inconvenienced in a hundred ways in their daily lives. Nor has economic benefit increased strongly. The problem of over-investments in fixed assets awaits solution.

In drawing up the Seventh 5-Year Plan, the municipality reviewed the present state of social and economic development in full, adequately assessing the range of problems and difficulties facing it as well as carefully considering the municipality's solid foundation and various favorable factors. It set targets realistically according to its capabilities and did its best to base itself on a sound, firm basis, allowing room for unforeseeable circumstances, so that the municipality can pursue even more balanced and healthy social and economic growth in the Seventh 5-Year Plan.

## Chapter 2. Major Tasks And Targets

The general task of Beijing's Seventh 5-Year Plan for economic and social development is to continue to implement the "four directives" and "Ten Official Requests" embodied in the central government's policy for development of the capital, tackle the simultaneous development of a spiritual and a material civilization, persevere with reform and forge ahead by opening up a new path, all in accordance with the general demands of building socialism with Chinese characteristics and the basic policy of invigorating the domestic economy and opening China to the world. It aims to enable Beijing to play a more prominent role as the nation's political and cultural center and better serve the central government, domestic and international intercourse, and its own people.

Beijing should abide by the following principles during the Seventh 5-Year Plan:

1. Uphold reform as its top priority. Make reform, on the one hand, and social and economic development, on the other, accommodate and stimulate each other. Work vigorously to intensify horizontal economic cooperation and further the development of a socialist commodity economy.

2. Strengthen and improve macroeconomic management and strictly control the level of fixed assets investments. Adjust the investment mix. Prevent an explosion of consumption funds. Strive to maintain a basic equilibrium among public finance, credit, materials, and foreign exchange.

3. Curb urban growth in accordance with the general demands of urban planning. Redevelop urban and rural areas comprehensively. Make an effort to improve environmental quality. Value ecological balance.

4. Continue to adjust the industrial structure by taking into account the capital's characteristics. Combine the accelerated development of tertiary industry which satisfies the public's daily needs, with the development of such sectors as consulting, finance, and insurance which serve production.

5. Insist on putting educational development and scientific and technological progress in a new strategic position. Reform the educational, scientific and technological systems successfully and expedite developments in those areas.

6. Develop an economy that fits the capital's characteristics. Tackle the technological transformation of existing enterprises aggressively. Absorb, digest, and assimilate imported technology and make innovations on it. Take the intensive-growth approach to expand reproduction.

7. Broaden external economic and technical exchange, step up exports, go all out to develop tourism, expand labor export, and work hard to increase foreign exchange earnings.

8. Foster a spirit of hardiness and willingness to undergo hardships and thriftiness in doing one's work.

9. On the basis of rising output and economic benefits, steadily improve the people's material and cultural lives in both urban and rural areas.

The municipality will strive to attain the following targets:
- GDP reach 35.3 billion yuan by 1990, at least double that in 1980 and up 37 percent over 1985, for an average annual growth rate of 6.5 percent.
- Gross national income should reach 26 billion yuan by 1990, more than double that of 1980 and up 34.2 percent over 1985, for an average annual growth rate of 6 percent.
- GVIAO should reach 47.2 billion yuan by 1990, up 35 percent over 1985, for an average annual growth rate of 6.2 percent. Of this figure, the gross value of industrial output (GVIO) account for 41.2 billion yuan, representing an average annual increase of 6 percent, and gross value of agricultural output (GVAO), 6 billion yuan, representing an average annual increase of 7 percent.
- Tertiary industry will contribute 38.2 percent of GDP in 1990, up from 33.3 percent in 1985. It will employ 42 percent of total social labor force in 1990, compared with 35.9 percent in 1985.
- Local revenues (excluding urban construction preservation taxes) will reach 6.7 billion yuan in 1990, for an average annual growth rate of 6 percent. Accumulative revenues over the entire 5-year period will be 30 billion yuan.
- Total investments in local fixed assets are put at 21 billion yuan during the 5-year period, of which 12.5 billion will finance infrastructural projects and 8.5 billion yuan will go to redevelopment and transformation. Add development investments by agencies of the central government in the capital, and gross fixed assets investments in the municipality as a whole will amount to 40 billion yuan.
- Gross social commodity retail value is estimated at 20 billion yuan by 1990, for an average annual growth rate of 9.4 percent.
- Gross foreign exchange earnings will reach $1.6 billion by 1990, of which exports will account for $900 million, for an average annual growth rate of 8 percent, and tourism, $700 million (number of tourists: 2 million), for an average annual growth rate of 16.3 percent.
- The various specialized institutions under the municipality will train a total of 237,000 people in a full range of disciplines in the next 5 years. The breakdown is as follows: general colleges and universities, 45,000 graduates; general technical secondary schools, 50,000; adult educational institutions, 142,000.
- Hospital beds in urban and rural hospitals will total 46,000 by 1990, 8,000 more than in 1985.
- By 1990, 1.8 billion pages will be printed, 25 district and county cultural centers and libraries will be built, and 50 key sites of cultural historic interest will be renovated. Radio and television broadcasting will be available, respectively, to 95 and 100 percent of the municipality's area. A stadium, gymnasium and swimming pool will be built in each of the 10 suburban counties (districts).
- By 1990, 28 percent of the urban areas will be covered with trees or grass, and open space per capita will exceed 6 square meters.
- Environmental protection. Atmospheric quality on the whole will reach Class

3 of the national standards, while drinking water will reach Class 2 of the national standard. An all-out effort will be made to comply with the national standards on noise pollution control. Industrial pollution within Erhuan St. which is a public nuisance, and the discharge of industrial fumes within Sanhuan St. will have been largely resolved by 1990. The treatment rate of industrial sewage will rise to about 55 percent.

- The labor force in the municipality will consist of 3.95 million people by 1990, a net growth of 127,000 over 1985.
- Workers' earnings per capita will expand 4 percent annually on the average, compared with 6 percent for peasants. Real income growth will average about 5 percent.
- Permanent population will be held steady at 10.2 million, of which 6.2 million will live in the towns.

## Chapter 3. Industrial Structure

The focus in industrial structure readjustment will be the acceleration of the growth of tertiary industry to serve production and satisfy the daily needs of the people. With realities as its point of departure, Beijing should achieve faster growth in commerce, restaurant operations, services, repairs and tourism, among other industries, and elevate the development of post and telecommunications to an even more conspicuous position. It should also actively develop finance, insurance, information, consulting, and other industries that serve production and construction. As for the primary and secondary industries, their chief mission is internal structural readjustment.

Deregulation holds the key to developing tertiary industries that directly satisfy the daily needs of the people. We should take pains to develop the collective economy and individual economy by continuing to diversify operational forms and allowing state-run, collective, and individual enterprises in both urban and rural areas to thrive at the same time. Fledgling service industries sorely needed in society should be supported with loans or nurtured by preferential tax policies. Personnel training for tertiary industry should be expedited and a great effort made to improve personnel quality.

Even as we concentrate on such tertiary industries as commerce, restaurant operation, and services, the suburbs should vigorously open up new areas to serve the production process from pre-production through the post-production stages. The circulation channels of agricultural by-products should be cleared. The intermediate stages between production and sale should be shortened and their close integration encouraged. Transportation and storage should be improved to meet the needs of a rural commodity economy.

By 1990, primary and secondary industries will account for 5.7 and 56 percent, respectively, of the GDP, down from 6.9 percent and 59.9 percent in 1985. Meanwhile, the share of tertiary industry will have risen from 33.3 percent to 38.2 percent. Employment in primary industry which accounted for 19.6 percent of the overall labor force in 1985, will drop to about 14 percent and employment in secondary industry will hold steady at 44 percent or so. Tertiary industry on the other hand, will provide jobs for 42 percent of the labor force, up from 35.9 percent in 1985. The predominant trend is for the workers to flow toward tertiary industry.

## Chapter 4. Economy In The Suburbs

The policy of "serving the capital, enriching the peasants and building new modern socialist villages" must be continued to bring about across-the-board advances in agriculture, forestry, animal husbandry, sideline production, fishery, industry, commerce, construction, and transportation, and promote the specialization, commercialization, and modernization of the rural economy. While it must ensure grain production, Beijing should also transform its suburbs into stable, modern bases of non-staple food production.

### 1. Tasks and Targets

The plan projects a gross social output value of 18 billion yuan (in 1985 prices) for the suburbs by 1990, up 53 percent over 1985, for an average annual growth rate of 8.9 percent. Of the total, GVAO (excluding rural industries) will amount to 3.2 billion yuan, representing an average annual growth rate of 4 percent, and GVIO, 10 billion yuan, representing an average annual growth rate of 10 percent.

Planned grain production is 2.15 million tons, more or less unchanged from the 1985 level.

We should severely crack down on the illegal removal of land from grain production. Relentless efforts should be devoted to the popularization of improved varieties and the strengthening of scientific management in order to raise the per unit area yield. The target is 7.5 tons per hectare.

In vegetable cultivation and supply, the policy is to "rely primarily on the inner suburbs, with supplies from outlying suburbs as a supplement, and use vegetables from other cities to make good any shortages." The illegal use of vegetable plots for purposes other than planting vegetables must be strictly controlled. A concerted effort should be made to develop vegetable cash crops in the outer suburbs.

The raising of commercial pigs will hold steady at about 2 million in 1990, of which lean pigs will account for over 1 million. Milk production will reach 250,000 tons, an increase of 85 percent over 1985. Commercial eggs will reach 140,000 tons, up 17.6 percent over 1985, while 30 million chickens will be produced, up 1.3-fold over 1985. In animal husbandry, Beijing should continue the policy of encouraging its simultaneous development in state enterprises, collectives, and individual households, and gradually establish a comprehensive system which includes improved breeds, fodder, raising of livestock, epidemic prevention, processing, marketing and sale, and technical services.

Freshwater fish production is projected at 35,000 tons, up 1.3-fold over 1985. The total area of fish ponds will exceed 66,000 hectares (100,000 mu).

Dried and fresh fruit production will be 300,000 tons in 1990, up 58.7 percent over 1985.

## 2. Major Policies And Measures

The rural economic system should be further reformed and different versions of the output-related system of contracted responsibility gradually perfected. A cooperative economy should be developed in accordance with the principle of voluntarism and mutual benefit. Science and technology should be mastered along with the training of qualified personnel. The municipality's "spark plan" should be energetically pursued, the rural labor force systematically deployed, and the settlement of surplus agricultural labor closely integrated with the development of rural market towns in order to enable peasants to "leave the soil but not the village" and prevent the unchecked migration of surplus agricultural labor into the city. With regard to town and township industries, the emphasis should be on the processing of agricultural byproducts, small-scale mining, the building materials industry, and the manufacturing of accessories for major industries. The technological transformation of existing enterprises should be systematic and targeted. The municipality must strive to raise product quality, improve economic efficiency, increase labor productivity, vigorously tackle pollution, and intensify the development of the mountainous areas to lift them from poverty as soon as possible.

## Chapter 5. Industry

During the Seventh 5-Year Plan, Beijing should make the improvement of economic benefits the central focus of its work, give top priority to the raising of product quality, augment its efforts in the research and development of new products, and correctly handle the relations between efficiency and growth rate and between quality and quantity. It must fully use its existing industrial basis, transforming, expanding or restructuring enterprises already in place. It must take the road of intensive growth to expanded reproduction and devote itself to a number of infrastructural and technological transformation projects that will generate the momentum for sustained, steady industrial growth.

The readjustment of the industrial structure must be continued, with emphasis on industries in line with the capital's characteristics and with definited advantages. Industries like food, electronics, building materials, automobiles, home electrical appliances, printing, and apparel processing should remain priorities. In the machine industry, the stress should be on the development of energy-efficient, precision electric machinery and instrucments. Metallurgical and chemical industries should exert themselves to control and treat pollution and, on that basis, go in for comprehensive utilization and sophisticated processing. All industries and trades should go out of their way to satisfy the public's need for articles of daily use. All industries and enterprises should toughen industrial safety measures, conscientiously deal with environmental pollution and set deadlines for the improvement of substandard products, technologies and equipment which are heavy energy or water consumers and seriously pollute the environment. In the absence of improvement, they should be phased out. Inter-industry and inter-sector departmentalism should be eliminated to promote horizontal economic cooperation, consolidate coordination, and facilitate mutual assistance.

The distribution of industries should be further adjusted. Factories whose continued presence in the urban areas is considered unsuitable should gradually be relocated to the more remote suburbs according to a plan. Factories located in towns and the more immediate environs should continue to develop along "Bailan Road" by stepping up urban-rural and industry-agriculture cooperation and send out spare parts and products to the outer suburban areas in accordance with the principle of specialization.

1. Tasks and Targets

It is projected that by 1990 GVIO will reach 41.2 billion yuan, representing an average annual growth rate of 6 percent. The production of major products should be in accordance with international standards. In quality and performance most products will be on a par with that in the developed countries during the late 1970's and early 80's. The technology and equipment of a number of key production lines will be comparable to that of developed countries nations in the 1980's.

Overall, labor productivity in state-owned enterprises will reach 27,000 yuan, representing an average annual growth rate of 5.5 percent.

Targets for key industries are as follows:

The food industry will emphasize beer, brand-name liquors, beverages, white bread, refined oil, fast food, and food additives. By 1990, flour production will range from 1.25 million to 1.35 million tons, up 10 to 19 percent over 1985, and beer, 320,000 to 400,000 tons, an increase of 100 to 150 percent over 1985.

The electronics industry should adhere to the direction of "import, absorption, assimilation, and innovation," accelerate the pace of combining domestic and foreign technology into new Chinese-made technology, and constantly enhance self-reliance and its ability to sell products abroad in return for foreign exchange. By 1990, computer production will reach 250 units, up 2.3-fold over 1985; microcomputers, 20,000 units, up 3.3-fold; and integrated circuits, 80 million units, up 9-fold over 1985. The municipality will be able to produce 300,000 program-controlled switchboards annually.

The building materials industry should implement in earnest the policy of encouraging participation by all people in industry to quicken its growth. Cement production is put at 4.1 million tons by 1990, 29 percent more than in 1985; plate glass, 900,000 crates; bathroom fixtures and accessories, 50,000 to 60,000 sets; and man-made planks, 80,000 cubic meters, an increase of 33 percent compared with 1985. Step by step the municipality will reduce its dependence on large quantities of upscale, imported furnishing materials.

In the automotive industry, efforts must be made to upgrade current automotive products. By 1990, its models and motor engines should match international standards of the 1980's. The production capacity of the industry will reach 80,000 to 100,000 units by 1990, a one-fold increase compared with 1985.

The textile industry should continue to adjust its product mix, emphasizing the modernization and development of the chemical fiber, wool-spinning, post-printing, and post-dyeing industries. The apparel industry should improve clothing designs endlessly to turn out stylish, attractive products covering a full range of sizes to meet the needs of diverse consumers, thus turning Beijing into a new fashion center. Chemical fiber production will be 45,000 tons by 1990, up 14.2 percent over 1985; yarn, 420,000 pieces, up 9 percent; cloth, 260 million meters, the same as in 1985; woolen fabrics, 16.3 million meters, up 16 percent; knitting wool, 9,500 tons; print and dyed fabrics, 200 million meters; and garments, 150 million pieces.

Household Goods Manufacturing Industry

In 1990, 550,000 domestic refrigerators will be made, a 2.2-fold increase compared with 1985; washing machines, 880,000 units, up 35 percent; color TV sets, 800,000 units, up 1.1-fold; machine-made paper and cardboard, 210,000 tons, up 1.9 percent; synthetic detergents, 75,000 tons, up 46 percent; and furniture, 3 million pieces, up 20 percent.

Machine tool, instruments, and meter industries

Even as they diligently tackle basic technologies, basic machines and basic parts and components, these industries should intensify their drive to develop and apply electromechanical instrumentation technologies, vigorously develop energy-efficient electric machinery products, and manufacture complete sets of electricity-generating equipment. The aim is that 60 percent of their products will match the most advanced in the world in the late 1970's and early 80's. In addition, they will produce a number of machine tools comparable to the most sophisticated in the world and capable of breaking into the international market. The production of metal-cutting machine tools is put at 7,000 units by 1990, up 12.8 percent over 1985, while the output of printing machinery will go up 47 percent to 900 units. Also to be manufactured will be equipment capable of generating 1.3 million kw, up 80 percent; electric station boilers with a capacity of 1.2 million kw; 1,000 industrial cranes; and 5,000 forklifts, a 2-fold increase.

The petrochemical industry should do a still better job in comprehensive utilization, sophisticated processing, and the technical transformation relating to energy conservation. It should strive for excellence and manufacture products with a high added value. The chemical industry should devote itself to the development of good-quality, energy-efficient, high-performing and non-polluting, sophisticated chemical industrial products. The plan projects sulfuric acid production in 1990 to be 72,000 tons; caustic soda, 95,000 tons; plastics, 430,000 tons (including 30,000 tons of low-concentrate synthetic polyvinyl chloride, 110,000 tons of polypropylene and 50,000 tons of polystyrene); phenol, 50,000 tons; acetone, 40,000 tons and synthetic rubber, 63,000 tons.

### Metallurgical Industry

The iron and steel industry should perfect the 3-million-ton smelting system and put the Qianan mining base on a solid footing. It should also complete the relocation of Steel Rolling Mills No 1 and 3, and begin the removal of Beijing Iron and Steel Complex. The nonferrous metal industry should concentrate on the development of fuel-efficient, non-polluting technology-intensive products. Production targets for 1990 include: pig iron, 3 million tons; steel, 3 million tons; up 12 percent over 1985; steel products, 2.7 million tons, up 22 percent; iron ore, 16 million tons, up 18 percent; copper products, 20,000 tons, up 19 percent; and aluminum products, 17,000 tons, up 93 percent.

### Major Policies and Measures

Beijing should vigorously but steadily pursue the reform of the industrial management system, enhance the capacity of enterprises for self-modernization and self-development, and intensify macroeconomic control over industrial and economic activities.

It should continue quality control cross the board, stress quality supervision, reinforce testing and inspection organizations, and strictly prohibit the production of substandard products. It must keep up the drive for specialized cooperation, provide the conditions for specialized production, nurture all manner of affiliation and cooperation between production enterprises, on the one hand, and scientific research institutions, colleges, universities and design units, on the other. It must also enhance enterprises' capacity to improve product quality and develop new products, formulate concrete policies to provide incentives to industries targeted for preferential treatment and energize large and medium-sized enterprises, and support low-profit enterprises with loans and tax breaks, among other things.

Moreover, the municipality should draw up sound development plans for industries and key enterprises, step up technological transformation, actively import advanced technology and equipment from abroad to expedite technological progress, strengthen staff training, improve the quality of the work force, and raise enterprise managerial standards. Localities should give financial support to necessary projects.

## Chapter 6. Energy And Water Resources

Beijing suffers from severe water and energy shortages. A conscientious drive to conserve energy and water will go a long way toward ensuring successful production and construction and a stable living for the people.

### 1. Energy Production And Consumption

#### 1) Electricity

It is projected that by 1990, municipal electric generating capacity will be 13 billion kwh. The centralization of power supply should be tackled in conjunction with the construction of power stations. The construction of facilities for power transmission and transformation in urban areas should be intensified.

2) Coal

Coal output by 1990 will reach 8.45 million tons.

3) Rural Energy Resources

In line with the principles of "adapting measures to local conditions, developing a multitude of energy resources to supplement one another, comprehensive utilization, and economic benefits" Beijing should combine the vigorous development of small coal mines with the operation of fuel forests, local conditions permitting. Efforts should be made to popularize the firewood-saving kitchen stove, build an additional 25,000 methane-generating pits, develop small-scale hydropower stations, and tap solar power.

2. The Water Balance

For years, water resources in the Beijing region have ranged from just 4 to 4.2 billion tons on the average, and the municipality is already drawing upon all these resources at the moment. In the urban areas and parts of the inner suburbs, ground water has been resorted to excessively. Currently annual industrial water consumption amounts to roughly 1 billion tons. Henceforth the only way to meet any increase in domestic water consumption needs is to reduce agricultural and industrial consumption, while water for new or expanded enterprises must come from conservation by existing enterprises. Agricultural water consumption must be cut back.

3. Major Energy And Water Conservation Targets And Measures

By 1990, energy consumption per 10,000 yuan worth of industrial output will be reduced to 3.7 tons of standard coal. Assuming an annual energy conservation rate of 4.61 percent, total savings over the 5-year period will amount to 4 million tons (standard coal). Water consumption per 10,000 yuan worth of industrial output will be brought under 200 tons from the current 230 tons. Total rural water consumption will be trimmed to about 2 billion tons.

Beijing must seriously carry out the "Provisional Regulations For the Management of Energy Conservation" issued by the State Council, devise a good system to prioritize energy and water supply, and plan water and energy uses stringently. Units that exceed their energy or water quotas will be charged a progressive scale of fees. The municipality should popularize new energy-and water-efficient products, processes, technologies and materials; do its best to cut down on energy consumption; raise the water recycling rate, adjust the industrial structure with an eye to curbing the growth of industries that use energy and water excessively and cause serious pollution so that gradually an energy- and water-efficient industrial structure will emerge. The suburbs must modify crop varieties, strengthen water use management, go all out to do a good job in irrigation ditch lining ,and gradually bring about spray irrigation, trickle irrigation and the pipeline delivery of water. Education in water and energy conservation should be strengthened and made part of the primary and secondary school curricula so that everybody becomes conservation-minded and will not tolerate waste.

## Chapter 7. Transportation, Posts, and Telecommunications

### 1. Transportation

The emphasis here will be on urban public transportation in order to relieve traffic congestion. The construction of railroads and roads will be expedited, as will the development of air transport. Existing transportation facilities will be modified or expanded and the structure of the transportation industry will be adjusted to increase its all-round capacity.

Total cargo volume of the entire transportation industry will reach 86.9 million tons by 1990, including 51.9 million tons of road freight, representing an average annual growth rate of 2.2 percent, and 35 million tons of rail cargo, representing an average annual growth rate of 2.9 percent. The projected rail passenger volume is 60 million separate trips, up 47 percent over 1985; urban public transport passenger volume, 4 to 4.1 billion separate trips, up 19.7 to 22.7 percent over 1985; and civil aviation passenger volume, 3 million separate trips, up 38.8 percent over 1985.

### 2. Posts And Telecommunications

The postal and telecommunication industries will intensify the development of modern means of communication, paying special attention to the expansion of the handling capacity of the urban telephone system. The long-distance telephone network will be vastly augmented, as will the capacity of the postal service. The quality of postal and telecommunication services will be upgraded.

In 1990, postal and telecommunications services will be valued at 430 million yuan in all, representing an average annual growth rate of 13.9 percent. Of this total, the telecommunications sector will account for 344 million yuan, representing an average annual growth rate of 15.8 percent, and the postal sector, 86 million yuan, representing an average annual growth rate of 8 percent.

### 3. Major Policies And Measures

The municipality should adhere to the principle of raising funds from diversified sources to finance transportation, postal and telecommunication developments, make active use of foreign capital, import advanced technology, strengthen the technological modernization, expansion and renovation of existing facilities and make the best use of them. It should improve management as a way of increasing transportation efficiency and adopt diversified operational forms while making sure that they are well coordinated and operate in tandem with one another. It should also organize joint transport in a variety of ways and energetically apply modern management tools, including the computer, to enhance transportation efficiency, quality, and safety.

## Chapter 8. Commerce, Restaurant Operation, Services And Repairs

To satisfy the needs of developing a planned socialist commodity economy, Beijing must further reform the circulation system to enable commodities to circulate freely, increase the availability of consumer goods and maintain price stability. That way the capital's market will flourish without interruption.

It must continue the all-out effort to develop commerce, restaurants, services and repairs, among other industries, so that the "several difficulties" people experience in their daily lives can be largely mitigated. Conditions should be provided for the agricultural product market and consumer goods retail market to grow more rapidly. Beijing should gradually develop into a city where information is widely accessible, goods circulate freely, commodities are plentiful, services are attentive and efficient and where people are provided with every convenience in their daily lives.

The plan projects total social commodity retail sales to be worth 20 billion yuan by 1990, up 56 percent over 1985, representing an average annual growth rate of 9.4 percent. By that year, retail, restaurant, services and repairs points will number 120,000, up 46 percent over 1985.

Major Policies and Measures:

Beijing should strengthen macroeconomic guidance over the market, make a colossal effort to organize the procurement and supply of commodities much sought after in the market, and ensure that the procurement and allocation duties handed down by the state are accomplished. Policies should be formulated to encourage the production of small articles of daily use in demand in the market and initiative should be mobilized in all quarters in society to implement the policy of the simultaneous development of state-owned, collective, and individual enterprises. The municipality should vigorously develop retail commerce, restaurant operation, repair and services, adhere to the principle of small profits and quick turnover, foster the idea of enlightened business and the service orientation, take tangible steps to improve service attitude, and upgrade service quality. It must employ a combination of economic, administrative, legal and other mechanisms to free and regulate commodity circulation so that gradually a commodity circulation network will appear where the state-run commercial sector, while dominant, will coexist with a diversified economy in its various operational forms, where circulation channels crisscross with few bottlenecks and where things are made convenient for the public. The number of retail, restaurant, repair and service points should be increased even as their distribution and their mix of commodities and services are streamlined. In addition, the municipality should strengthen market management, conscientiously carry out the central government's relevant price policies and regulations to safeguard consumer interests, further tap potential and encourage organizations, enterprises and institutions to open their service facilities to the public.

## Chapter 9. Foreign Economic Relations And Trade

### The Use of Foreign Capital

Based on the principles of self-determination, equality, and mutual benefit, Beijing municipality should consolidate economic and technical exchange with other nations; expand foreign trade, the use of foreign capital, technology import, and external economic and technical cooperation; and fuel the capital's drive for socialist modernization during the Seventh 5-Year Plan.

The foreign trade system must be reformed and a herculean effort made to boost export. Import should stress advanced technology, key equipment and raw materials sorely needed by the municipality.

Exports are estimated to be worth $900 million by 1990, representing an average annual growth rate of 8 percent, and the total value of export procurement is expected to exceed 3 billion yuan. Over the next 5 years a total of $920 million in foreign capital will be invested in the municipality, a 2-fold increase over the Sixth 5-Year Plan.

### Major Policies And Measures

As far as expanding exports and augmenting foreign exchange earnings is concerned, Beijing must secure export commodity sources, take concrete measures to put together an export production system, give preference to technological modernization, and technology import, and accelerate product succession. Basing itself on relevant State Council regulations, it should work out measures to encourage the production of exports and increase export and hence foreign exchange earnings. It must further adjust the export commodity mix and do all it can to secure a niche in the international market for its electric machinery equipment and electronic products, initiate research on the world market, and open up new markets overseas. Foreign trade enterprises must work hard to improve the way they do business and manage their operations, economize, avoid waste and cut down on the costs of earning foreign exchange.

On foreign capital, Beijing must try to secure more foreign loans on preferential terms. In addition, it must make more use of foreign commercial loans when appropriate. It should welcome foreign businessmen to establish joint and cooperative ventures or wholly foreign-owned enterprises in Beijing. A conscientious effort should be made to implement thoroughly laws and regulations governing relations with foreigners and protect their legitimate rights and interests. There should be centralized oversight over all projects involving foreign capital. Such projects should be incorporated into the fixed assets investment plan of the municipality, as well as its foreign capital plan and foreign exchange balance sheet. In using foreign capital, the municipality should also consider its repayment capacity. In general, joint ventures are held responsible for balancing their foreign exchange revenues and expenditures. A vigorous effort should be made to enhance the economic and social efficiency of using foreign capital.

## Chapter 10. Tourism

The primary objective of tourist development in Beijing in the Seventh 5-Year Plan is to heighten its capacity to provide for the needs of tourists so that it will begin to develop into an all-purpose international tourist center. In 1990, Beijing will play host to 2 million tourists, representing an average annual growth rate of 16.4 percent, and rake in $700 million in foreign exchange. Beijing should combine efforts to develop international tourism with moves to develop domestic tourism and make sure that tourists from all over the nation are well received.

### Major Policies And Measures:

Within the framework of centralized state planning, the municipality should marshall resources in all quarters and raise funds through various channels to strengthen the development of tourist facilities to satisfy the full range of tourist needs, from accommodation, transportation and sightseeing to shopping and communications.

It must build tourist hotels systematically in accordance with a plan and make sure that there is a proper proportion among the numbers of luxury, medium-priced and inexpensive hotels. During the Seventh 5-Year Plan, 21,000 hotel rooms of all types will be built, thus boosting the capital's overall hotel accommodation to over 40,000 rooms. In addition, apartments offering 4,000 suites will be put up, along with 4,000 offices. The production and sale of tourist commodities will be expanded. The sale of tourist commodities in return for foreign exchange should be treated in the same way as exports.

The training of qualified personnel for the hotel industry must be accelerated and their political and professional quality must be improved. Beijing should upgrade the quality of tourist publicity films, videotapes, and printed literature, and launch a publicity campaign in those nations where the bulk of tourists to Beijing originate. It must also step up tourist cooperation with neighboring nations and regions and offer a wide range of tourist services to meet the needs of tourists from diverse nations, of different races and ages and from different classes.

## Chapter 11. Science And Technology

### 1. Natural Science

During the Seventh 5-Year Plan, scientific and technological development should take center stage. The reform of the scientific and technological system must be continued and a variety of approaches adopted to exploit the capital's scientific and technical superiority. The municipality should mobilize resources in scientific research institutions, design units, colleges and universities to tackle projects concerning the major elements of economic construction and the capital's weaknesses. It must help accelerate the popularization and application of scientific research achievements and continuously improve the standard of production technology. The policy of integrating "research, development, demonstration, and popularization" should be continued; in certain key areas, practical, valuable scientific research achievements should be popularized and an effort made to develop the capability to produce them. Even as it energetically imports advanced technology from abroad, Beijing should accelerate its absorption and assimilation, diligently seeks to convert foreign technology into Chinese-made technology, and enhances its capacity for independent innovation. The focus should be on:

1. Microelectronics technology, bioengineering, new materials, information technology (computer and optical information technology), artificial intelligence, industrial process control, business management automation, etc.
2. The sound utilization of water resources and the development of new energy resources; computerized urban administration; modern urban traffic control; environmental protection and ecological balance.
3. The continuous digestion and assimilation of and innovation on imported advanced technology; the acceleration of the domestication of advanced technology.
4. Going all out to develop new technology and new varieties in vegetables, fruit, poultry raising and aquaculture. Providing superior technical services for the establishment of non-staple foodstuff production bases in the suburbs.
5. Fully exploiting the pool of talent in the Beijing area and gradually setting up bases for such new technologies as photoconductor communications and high polymer.

Major Policies and Measures:

Beijing should continue the reform and restructuring of scientific research institutions, consolidate horizontal ties between scientific research units and production units so that scientific research is integrated with production and the two can nurture and stimulate each other. It should also increase investments in scientific research appropriately and intensify the development of experimental bases and scientific development centers for key industries. Operating expenses for scientific research and the three kinds of expenditures for science and technology should expand more rapidly than local regular revenues for the same year. The popularization and adoption of agricultural scientific achievements should go hand in hand with the construction of non-staple foodstuff production bases and export commodity bases. Moreover, Beijing should actively work out and implement a "spark plan;" step up information gathering, the popularization of science and technology and legislation in the field of science; and gradually improve the conditions for scientific intelligence work.

## 2. Social Science

Social science must steadfastly follow Marxism-Leninism and Mao Zedong Thought as a guide, uphold the principle of relating theory to reality, closely adhere to the basic direction of putting theory at the service of the construction of the socialist material civilization and spiritual civilization. The focus of social science research should be the study and resolution of major theoretical issues that have occurred in the course of constructing the two civilizations in the municipality, but research on basic theories should also be stressed.

The work of various mass academic bodies in philosophy and social science should be strengthened to enable them to become a vital force in the municipality's modernization.

## Chapter 12. Education And The Training Of Qualified Personnel

During the Seventh 5-Year Plan, the municipality should earnestly and thoroughly implement the "Decision Of The CPC Central Committee Regarding The Reform of the Educational System." It should abide by the principle of orienting itself to modernization, to the world and to the future and by the notion that a person should be educated in an all-round way--morally, intellectually, physically, and aesthetically--so that education can expand significantly even while maintaining its quality.

### 1. Basic Education And Vocational Technical Education

Junior secondary education will become universal in the urban areas and county towns in 1987 and in the rural areas in 1990. Individual localities with special difficulties may be allowed more time as appropriate to put this into effect.

2. By 1990, senior secondary education (including general senior high schools, vocational senior high schools, secondary specialized schools, and technical schools) will be made universal in the urban areas and county towns.

In 1990, elementary school recruitments will total 160,000, while enrollments will reach 1 million. The corresponding figures for junior high schools will be 100,000 and 300,000, respectively.

The implementation of 9-year compulsory education will be accompanied by intensive efforts to develop pre-school education, improve kindergartens, and provide special education to the blind, deaf, mute, and mentally retarded children. Beijing will also exert itself to develop education for minority nationalities.

The development of secondary vocational and technical education must be continued vigorously, particularly in rural areas.

Recruitments by general senior high schools are put at 36,000 in 1990, while recruitments by all types of full-time vocational schools are estimated at 49,000.

### 2. General Higher Education

The ongoing effort to adjust the specialized fields of study and academic structure must be continued. The conditions in which institutions of higher education operate should be changed for the better and the quality of education must be improved steadily in order to train more and more qualified people for the nation.

By 1990, recruitments by full-time general institutions of higher education, including undergraduates and special students, will reach 44,000, of whom 13,000 will be recruited by municipal institutions. Graduate student recruitments will reach 9,000, of whom 400 will be recruited by municipal institutions. During the Seventh 5-Year Plan, a total of 160,000 undergraduates and special students will graduate, 45,000 of them from municipal institutions of higher education, as will 33,000 graduate students, 1,000 of them from municipal institutions.

### 3. Adult Education

Steady progress will be made in higher education and secondary education for adults. On-the-job training will be stepped up to upgrade workers' scientific, cultural and professional standards.

By 1990, enrollments in institutions of higher education for adults in the municipality will reach 180,000, 60,000 of them in municipal institutions. Corresponding figures for adult secondary schools will be 70,000 and 60,000, respectively. During the Seventh 5-Year Plan, a total of 80,000 adults trained in diverse fields will graduate from a variety of colleges and universities run by the municipality. They will be joined by 62,000 other adults who will have completed training in municipal secondary specialized schools.

### 4. Major Policies And Measures

1. Beijing must improve the quality of its teachers.It must reform the recruitment system of teacher training colleges and improve the quality of new students by requiring recommendations and examinations. Moreover, training for working teachers should be intensified to make them better teachers. Respect for the teaching profession should be fostered in society.

2. Educational spending must be increased, with educational appropriations going up at a higher rate than the growth of regular local revenues. Educational surcharges and voluntary donations by units associated with a particular school should not be diverted to other uses. All quarters in society should be mobilized to concern themselves with education and support it. Units and individuals should be encouraged to make donations to education.

3. Beijing should boost investments in educational facilities and improve the conditions in which existing schools operate.

4. Beijing should popularize television as an educational medium. Depending on its needs and capabilities, the TV University should gradually expand its recruitment in a socially responsive way. A strong effort should be made to develop secondary technical education via television.

## Chapter 13. Public Health, Culture, And Sports

### 1. Public Health And Medicine

### Public Health And Health Care

There should be a continuous expansion in medical and health care facilities in urban and rural areas. The medical and public health contingent should be augmented and medical and scientific standards should be raised. The scientific management of medical services should be strengthened and service attitudes improved to ensure a healthy population. Epidemic prevention should be stepped up, along with the construction of the epidemic prevention contingent. The emphasis here is the prevention of infectious diseases, local diseases and occupational diseases that pose a serious threat to public health. The incidence of major infectious diseases should be controlled and lowered.

Traditional Chinese medicine should be vigorously developed, as should its integration with Western medicine. Traditional Chinese medical organizations at the municipal and district (county) levels should be put on a sound basis, and a center for Chinese medical research should be established to spearhead the growth of the traditional Chinese medical contingent.

Intense medical scientific research should be launched to attack such diseases as cardiovascular diseases, brain blood-vessel diseases, tumors and viral hepatitis. New breakthroughs should be achieved in extensive epidemiological research.

### Medicine And Drugs

During the Seventh 5-Year Plan, Beijing should accelerate technological transformation, improve production conditions, multiply testing devices, adjust product mix, upgrade product quality and develop new, high-quality, effective and non-polluting products.

In the field of chemical medicine, the primary concern is to improve the standard of preparations so that they will attain the international standards of the "san ding, san xiao, and san fan" [0005 1353, 0005 2400, 0005 6847].

The production of various types of new amino acid preparations should be increased. In raw material medicine, Beijing should apply itself to the development of vitamins and related products, semi-synthetic antibiotics, and cephalosporin antibiotics. New varieties of cardiovascular and asthmatic drugs should be researched and manufactured. Vitamin supplement production should be expanded. Research and development should be initiated in biochemical medicine and biochemical reagents. Efforts must be made to improve the technological standard of the production of Chinese prepared medicines, intensify the search for secret or proven medical formulas, and come up with new preparations.

## 2. Culture

### Culture And Art

The municipality must follow closely the direction of serving the people and socialism, give pride of place to social efficiency, implement the principle of "letting a hundred flowers blossom and a hundred schools of thought contend," and do its best to vitalize socialist artistic creation to reflect the spiritual outlook of the entire population in the capital. It must do more to promote research in art and science and the excavation and processing of the nation's artistic heritage. The leadership system of specialized artistic organizations should be overhauled, as well as the way they are run and managed.

### TV Broadcasting

Infrastructure in television broadcasting should be stepped up along with its programming capacity. The goal is rich diversified TV fare of a high quality, lengthened broadcasting time, and an enlarged TV reception area. By 1990, people in 95 percent of the municipality should be able to receive TV broadcasting.

### Newspaper Publishing And Printing

Newspapers should accurately publicize the party's line, policies, and principles, disseminate all scientific, technological, and cultural knowledge of benefit to economic development and social progress, promote social and economic development, and broaden the circulation of cultural, scientific, and technological information. It is estimated that by 1990 newspaper publishing will take up 1.8 billion pages. Newspaper quality should be improved continuously to turn the press into a thought-provoking source of up-to-date information and new knowledge that can meet the needs of a diverse readership.

Initiative should be mobilized throughout society to nurture printing as a key industry in the capital. The modernization of printing technology should be accelerated and an effort made to reduce printing turnover time.

### Mass Culture

Grassroots cultural developments should be strengthened to invigorate the cultural life of the masses in their spare time. Beijing should raise the standard of mass cultural activities without diminishing their popular appeal. In the Seventh 5-Year Plan, 19 district or county cultural centers and libraries will be built or renovated across the municipality, while neighborhood and Class 1 township cultural stations will be improved, forming a mass cultural network at four levels--municipal, district (county), township and the grassroots.

### Cultural Preservation And The Construction Of Museums and Archives

Beijing must redouble its efforts in cultural preservation and management and combine scientific preservation with sound utilization so that cultural relics can play an even more important role in the Four Modernizations. The 600-some cultural relic preservation sites above the county and district levels should be repaired in batches in order of priority. The municipality should draw up cultural relic preservation legislation, rules and regulations, educate the masses in the need to protect cultural relics, and severely crack down on relic smuggling.

### 3. Sports

The nurturing of a good corps of athletes must be stepped up and a drive launched to encourage sports among the general public. The standard of sports must be raised and the physical fitness of the people improved. The focus should be on physical education in schools, starting with small children. Beijing should commit itself to upgrading physical education facilities in schools, expanding the physical education teaching force, improving standards in physical education steadily and initiating sports activities for the vast numbers of workers in their spare time. It should actively cooperate with relevant agencies in the central government to prepare for the Asian Games, finishing on schedule the construction or modification of the 27 facilities approved by the organizers of the Games.

Training for the reserve army in sports should be intensified. The construction of the contingent of outstanding athletes should be stepped up, the quality of athletes and coaches must be enhanced and an all-out effort made to achieve excellent results in major athletic competitions.

## Chapter 14. Environmental Protection And Greening

### 1. Environmental Protection

Goals for air quality control: National Standard Class 2 in scenic areas and nature preserves, and Class 3 in urban areas.

Environmental quality of water bodies. The three major reservoirs and their systems of diversion channels, which are the source of drinking water, will achieve National Standard Class 2, while decorative lakes and rivers will achieve Class 3.

Environmental noise. The municipality will be divided into separate zones functionally, most of which will achieve the national standards appropriate to their zone designation, with the exception of certain areas.

Urban solid waste. Urban garbage should be treated expeditiously. The detoxification rate should be raised.

Industrial pollution within Erhuan Road will largely be brought under control. The comprehensive utilization rate of industrial waste will exceed 50 percent, and its treatment rate, 30 percent; the treatment rate of industrial dust particles, above 85 percent; and the treatment rate of industrial sewage, about 55 percent.

## 2. Greening

The point of departure here is to enlarge the entire region's tree cover and improve its environmental quality. In accordance with the basic guideline that a large park be built in the capital, Beijing should combine urban tree-planting with suburban tree-planting, integrate large parks and extensive lawns with their smaller counterparts, make greening part of urban construction, and intermingle trees and shrubbery with flowers and grass.

During the Seventh 5-Year Plan, a total of 7.5 million trees will be planted and 5 million square meters will be seeded with grass. By 1990, there will be 6 square meters of public open space planted with trees or covered with grass per person, and 28 percent of the area of the municipality in all will assume a green look. In the more remote suburban counties, corresponding figures will be 3 to 7 square meters and 30 percent, respectively.

## 3. Major Policies And Measures

Environmental protection, greening and the maintenance of the ecological equilibrium should be made part and parcel of urban and rural planning and construction. Long- and medium-range plans on environmental protection and urban greening must be drawn up carefully. A cap should be imposed on the amount of wastes discharged. Atmospheric environmental protection should center on the built-up urban areas. The municipality should vigorously develop such clean fuels as gas and natural gas and push ahead with centralized heat supply and joint heat supply. It should popularize the use of formed coal and set aside adequate areas in the capital as open spaces to be planted with trees. Residential areas should be separated from one another with green spaces, either scattered or grouped. The urban areas should be ringed by a green belt. In the protection of water bodies, the primary concern is the protection of drinking water. Trees should be planted near water sources and along river banks. In the treatment of solid wastes, the emphasis should be on urban garbage and smoke ashes; economic policies should be formulated to give incentives to the development of the technology for comprehensive utilization of powdered coal dust. The demonstration projects of various agroecosystems in the suburbs should be properly conducted, biological control work should be launched and pesticide use should be reduced. The public should be mobilized to plant trees, vastly increase nursery stock and grow flowers and plants to prevent soil loss. The comprehensive utilization of resources should be encouraged and old enterprises and products that seriously pollute the environment must be eliminated by a set date. All kinds of construction projects must be required to undertake environmental impact studies. Projects cannot be built without authorization.

Environmental and greening agencies at all levels should be strengthened and environmental management toughened. Environmental protection and greening rules and regulations of a local nature should be drawn up and perfected.

# Chapter 15. Fixed Assets Investments

The level of investments in fixed assets must be strictly controlled during the Seventh 5-Year Plan. The investment structure must be modified to ensure that key projects are actually built. The macroeconomic management of fixed assets investments must be strengthened and improved, while efforts must be made to increase investment returns.

## 1. Local Capital Construction

Over the next 5 years, a total of 12.5 billion yuan will be set aside to finance local capital construction, up 67.6 percent over actual investments in the Sixth 5-Year Plan.

### (1) Investment Principles

The level of capital construction investments in the first 2 years of the Seventh 5-Year Plan must be maintained at the 1985 level. Those 2 years will be devoted to completing projects already under way; a tight lid will be imposed on new projects. In the last 3 years of the Seventh 5-Year Plan, the municipality will launch needed new projects as appropriate, financial and material resources permitting. Investment priorities are as follows:

1. Urban infrastructural development will continue to enjoy priority over all other kinds of projects;
2. Increase investments in education and science and give preference to cultural facilities, medical services and health care;
3. Make sure that Asian Games facilities are built, as well as other projects involving foreign participation for which contracts have been signed. Also, more facilities offering tourist services should be built.
4. Investments in production facilities in agriculture, industry and commerce should be expanded as appropriate, while investments in nonproduction projects should be drastically curtailed. Housing should be built wherever justified.

### (2) The Level Of Investments And Investment Structure

Urban infrastructural allocations (including those for housing) will amount to 4.04 billion yuan during the Seventh 5-Year Plan, double that over the preceding 5 years, mainly to finance projects in water supply, water drainage, gas supply, heat supply, urban roads, subways, environmental protection, sewage treatment, sanitation, tree planting and greening.

Scientific, educational and cultural agencies will be allocated 1.12 billion yuan, 100 percent more than what was actually invested in the Sixth 5-Year Plan. Most of the investments will go to all kinds of schools, scientific research units, cultural and sports facilities and hospitals.

Commercial and tourist agencies will be allocated 2.24 billion yuan, 90 percent more than the actual investments in the Sixth 5-Year Plan, primarily to fill gaps in the network of commercial points in residential areas; renovate and build new commercial centers at the district level, and, in some instances, at the municipal level; and put up luxury, medium-prized and inexpensive hotels and restaurants in a reasonable proportion to relieve the shortage of hotel accommodation affecting domestic and foreign tourists.

Industrial agencies will be allocated 3 billion yuan, mainly to finance projects in food, electronics, building materials and light and textile industries, among others, that suit the capital's characteristics in order to ensure steady industrial expansion in the capital and maintain developmental momentum.

Agricultural, forestry and water conservancy agencies will be allocated 580 million yuan, mainly to popularize scientific research achievements, build conveyance systems and develop fodder and processing industries using such agricultural products as poultry, eggs and milk.

Political and legal departments will be allocated 280 million yuan in investment funds, primarily to put up buildings to house procuratorial organs and people's courts, and build reform-through-labor, reform-through-education, fire-fighting, and traffic control facilities.

District and county investments will total 630 million yuan.

Other investments will amount to 610 million yuan (including the construction of buildings necessary to the implementation of the private residential housing policy).

Investments in housing construction by various agencies will amount to about 3 billion yuan, resulting in 10 million square meters of residential space.

### (3) Striving To Improve Investment Returns

A sound management system must be put in place and business must be conducted in strict accordance with capital construction procedures. Relevant state regulations must be complied with when privately raised funds are used in capital construction. Such funds must be deposited in a special account with the Construction Bank for more than half a year before they can be used. Bank loans and trust investments cannot be used as privately raised funds. A system of open bidding must be adopted to select design and construction units. If necessary, administrative tools as well as economic levers and regulatory devices should be applied to compel construction and design units to be more efficient.

## 2. Technological Transformation

During the Seventh 5-Year Plan, 8.5 billion yuan will be set aside to finance local technological transformation, 57 percent more than in the Sixth 5-Year Plan. Of this, 6 billion yuan will go to industrial technological transformation.

Technological transformation must follow a set of priorities and proceed systematically, zeroing in on these three types of enterprises:

1. Large and medium-sized key enterprises which are leaders in their respective industries in terms of production technology and management standards and which, after transformation, can serve as a trailblazer for others.
2. Old enterprises which impact the entire national economy but are burdened with relatively backward technology and equipment.
3. Enterprises in light, textile and food industries with extensive export, foreign exchange-earning and import substitution commitments; and machine tool and electronic enterprises with export potential.

Technological transformation in all enterprises should center on the improvement of economic efficiency. They should do their best to improve the quality and performance of their products, economize on energy, cut down on raw material consumption, come up with new designs and varieties, and enhance their capacity to turn out high-quality, brand-name products popular in foreign markets. Moreover, they should try harder to improve industrial safety and tackle environmental pollution.

It being their mission to equip the various sectors of the national economy, the machine-tool and electronic industries must stay one step ahead of the rest in technological transformation. With product succession as its goal, Beijing should successfully modernize key enterprises that produce basic parts and components, basic machinery and complete sets of equipment.

### 3. Technology Import

Technology import must follow a set of priorities and proceed systematically. As far as enterprises are concerned, the emphasis should be on large and medium-sized enterprises that are capable of selling their products abroad in return for foreign exchange or can contribute to import substitution. As for imports, they should primarily consist of software and technology, particularly the production technology of raw materials and basic components, basic technology and vital and needed equipment.

Beijing should do a better job in import control to avoid duplication and use a mixture of economic and administrative mechanisms to strengthen macroeconomic management and supervision. Adequate feasibility studies should be prepared on proposed imports, which should be carefully scrutinized and assessed in detail so that mistakes will not be made. Technology import should be accompanied by heightened attention to technology absorption and assimilation. Along with technology, appropriate management techniques and testing methods should be introduced from abroad to reinforce the municipality's own independent developmental capability and improve the standard of domestic products.

Technology import may take diverse forms, depending on the industry and project in question

## Chapter 16. Urban Construction

During the Seventh 5-Year Plan, Beijing should continue to regard urban infrastructural developmental as its top priority in urban construction to further ease water, gas, heat and electricity shortages, remove communication bottlenecks and increase transportation capacity.

Water supply. The main projects are Phase 1 of the Water Plant No 9, Chengzi Water Plant and related systems of water pipes. These projects will expand urban daily water supply capacity by more than 500,000 tons. As for gas supply, the major projects are the construction of a pipeline to carry natural gas from the Huabei Oil Field to the capital, the transformation of coking plants, the gas project at Capital Iron and Steel Complex and the promotion of domestic gas so that most residents will switch to gas for cooking purposes.

About power supply, the major projects are Phase 2 of the Zuojiazhuang Heat Supply Plant, a pipeline system for the Shijingshan Heat and Power Plant, and the Jianfeng boiler plant at No 2 Heat and Power plant. The result will be an increase from 9.16 million square meters to 30 million square meters the area in the municipality served by centralized power supply. As far as urban road construction is concerned, the most important projects are the construction of Sanhuan Lu in the southeast, the outer Erhuan Lu and a number of related gallop bridges, the opening up of certain checkpoints and the building of the subway under Fuxing Men. During the Seventh 5-Year Plan, construction will also begin on the subway between Fuxing Men and Jianguo Men. The aim of these projects is to relieve traffic congestion within the city and ease the outbound traffic in the south. Concerning environmental protection, the major projects are the construction of Miyun, Huairou and Gaobeidian sewage treatment plants, a main sewer in the western suburbs, and sewage pipeline systems in the urban areas; the partial treatment of Tonghui He and Liangshui He; the building of garbage dumps and an treatment plant; comprehensive environmental treatment; the relocation of a number of factories which pose a serious pollution hazard to the public, and urban greening. In addition, public transportation vehicles will be purchased, terminals and bus stops erected, and houses demolished as appropriate.

Housing construction should be planned in close coordination with the development of the new city, the redevelopment of the old city and housing demolition by the municipality. The redevelopment of the old city should not be financed exclusively by state investments, as in the past. Apart from annual local appropriations, Beijing must mobilize enthusiasm in all social quarters to raise funds in multiple ways and assign different parts of the redevelopment task to different units.

The municipality should reorganize all construction companies, set up a good management system, prohibit the free buying and selling of housing, investigate illegal housing speculation for profits and severely punish those responsible.

## Chapter 17. Public Finance And Monetary Matters

Public finance agencies should look into ways to create wealth, accumulate wealth and use wealth. They should manage all kinds of funds well and use them to good effect. They should vigorously support the reform of the economic system to ensure that production, construction and all kinds of projects proceed smoothly.

### 1. Budgetary Revenues and Expenditures

On the basis of improved management and steadily rising economic efficiency, the Beijing municipality should work hard to make sure that its revenues and expenditures expand at the same pace as production. During the Seventh 5-Year Plan, local revenues are projected to increase 6 percent annually, reaching 6.7 billion yuan by 1990. The 5-year accumulation will be 30 billion yuan.

Spending on education, scientific research and agriculture, among other things, will grow faster than local regular revenues. Urban protection expenditures will grow correspondingly, while administrative costs must be strictly curbed.

To achieve a balanced budget, the municipality must do everything possible to increase revenues and cut back on spending. There should be aggressive actions to develop production, invigorate circulation and improve economic efficiency. The key to increasing revenues lies with tax collection. In line with relevant national tax policies and regulations, the municipality must toughen tax collection and management and insist on conducting an annual tax and financial general inspection to ensure revenue targets are fulfilled or over-fulfilled. Fiscal discipline must be tightened, financial supervision and control strengthened and the efficiency of fund utilization heightened. Any unjustifiable expenditures must be slashed and the purchasing power of social groups closely checked.

## 2. Extra-budgetary Funds

Extra-budgetary funds during the Seventh 5-Year Plan are put at 30 billion yuan, reaching 7 billion in 1990 alone. The management of such funds must be intensified. An important function of planning and financial agencies is to exercise leadership over the proper use of extra-budgetary funds. Management agencies at all levels and all enterprises and institutions must strengthen their management of extra-budgetary funds and adjust the thrust of their use reasonably. Finance and auditing agencies should and sharpen their oversight and supervision over extra-budgetary funds.

## 3. Bank Loans

By 1990, deposits in all local banks are expected to hit 24.9 billion yuan, 9.3 billion yuan more than in 1985. Of this figure, 3.1 billion yuan are deposits and 4.7 billion yuan are savings deposits in towns. In 1990, bank loans will amount to 25.7 billion yuan, 13.2 billion more than in 1985. Most of the loans will be made to ease cash flow. As for loans for fixed asset investment purposes, they will be extended in strict accordance with the plan. It is expected that 12.6 billion yuan will be withdrawn from circulation over the next 5 years.

To relieve the extreme shortage of credit funds, banks should go out of their way to encourage savings and increase deposits during the Seventh 5-Year Plan. The number of savings points must be increased, and savings by mail must be developed. Organizations, enterprises and institutions should also be recruited to act as savings agents. The management of credit funds must be strengthened, the misuse of funds must be strictly reduced, loans which are due or overdue should be collected promptly and fund circulation must be accelerated. To make sure money is put to better use, funds must be allocated and manipulated flexibly. Banks must provide better services and operate more efficiently.

## 4. Insurance

During the Seventh 5-Year Plan, the insurance industry should put itself at the service of production and the public and play an even more constructive economic compensatory role. That way the industry will be able to grow more rapidly, making possible the appearance in the next 5 years of a rudimentary insurance system, shaped by both legislation and voluntarism. Insurance premiums over the entire 5-year period will total 1 billion yuan, an increase of 3.9-fold over the Sixth 5-Year Plan, representing an average annual growth rate of 27 percent.

## Chapter 18. Balancing The Supply And Demand Of Goods And Materials

As the materials control and allocation system undergoes more thoroughgoing changes, the variety and quantities of goods and materials centrally allocated by the state will gradually diminish. Since the demand for key materials will still outstrip supply considerably in the next 5 years, the municipality must exert itself to tap new sources of materials and balance the supply and demand of goods throughout society.

Among materials allocated by the municipality are substances essential to the fulfillment of the command production plan and the completion of priority projects. Raw materials necessary to the manufacture of durable consumer goods should also be allocated. As for raw materials vital to other products and projects, the market will be the chief regulator of their supply and demand. New sources of materials must be tapped in a hundred ways, foreign resources must be introduced to supplement local supplies and material circulation must be energized.

Materials agencies and agencies at all levels which consume materials must each exploit their own advantages, initiate inter-region, inter-section and inter-industry cooperation to develop material sources and establish new material bases. It is should be placed at high priority the conservation of certain kinds of raw materials. All production and construction units should improve raw material management, strive to lower consumption, take concrete measures to cut down on materials kept in reserve and eliminate waste so that limited materials are put to the best possible use. More should be done to retrieve and utilize old discarded metals.

## Chapter 19. Population, Labor And Social Security

### 1. Population

That urban and population growth must be strictly controlled is a firm unchangeable policy. During the Seventh 5-Year Plan, the municipality must continue the policy of late marriage, late childbirth, and one child per couple. It should make contraception the central focus of its population policy and promote a full range of contraceptive methods to be used in combination with one another. Even as it conscientiously seeks to curb natural population growth, it must also take forceful measures to check population increase due to migration.

The municipality's permanent population will be contained at 10.2 million in 1990, 620,000 more than in 1985, of which 6.2 million will live in the towns. Over the 5-year period, population growth from migration will be limited to 150,000, while the natural population increase rate will be about 8 per thousand population.

### 2. Labor

During the Seventh 5-Year Plan, the municipality's labor force will increase by 900,000, 500,000 in the towns and 400,000 in the villages, to reach 3.95 million in late 1990. In line with the principle of "leaving the soil but not the village," most new entrants into the labor force should be steered toward the tertiary sector.

### 3. Social Security

In accordance with the principle that social security benefits production and safeguards livelihood, the municipality should gradually establish and improve all kinds of social security systems as well as social welfare, social relief, and special care for disabled servicemen and the families of revolutionary martyrs.

In the management of the social security system, the municipality should insist on combining social management with unit management, giving primacy to the former. It should also improve free medical service and worker health care services.

In the area of social welfare, the municipality will further improve the social security system and facilities. More child-care centers, nurseries, activities centers for the elderly and disabled, social welfare centers, nursing homes, and sanitoriums should be built to provide additional facilities where workers can rest and recuperate.

A variety of social security funds should be established through diverse channels, supported essentially by contributions from enterprises and other income-producing institutions. Gradually, however, such funds should be financed by the state, collectives and individuals in a reasonable ratio.

Social relief and special care for disabled servicemen. More should be done to protect the livelihood of the handicapped and provide care for family members of revolutionary martyrs and servicemen. The employment and living needs of the blind, deaf and mute should also be met adequately.

## Chapter 20. Residents' Incomes And Consumption Patterns

On the basis of rising output and economic efficiency, the municipality will steadily improve the material and cultural lives of its urban and rural residents.

### 1. Residents' Incomes

Municipality-wide, consumption funds among urban and rural residents are projected to grow 5 percent in real terms annually on the average.

The municipality should implement the principle of distribution according to work in earnest and eliminate egalitarianism. However, it should also do something about gross income disparities among members of society. It should perpetuate the fine tradition of hard work and thrift which was what the nation was founded on. Consumption funds must not be allowed to expand too rapidly. The management of the wage system must be improved.

## 2. Consumption Patterns

Consumption by urban and rural residents will increase 28 percent in real terms in 1990, compared with 1985. This increase will be accompanied by changes in consumption patterns as well. Beijing residents will spend 49 percent of their income on food, down from 52 percent; 14 percent on clothing, more or less the same as in 1985; and 26 percent on households goods, up from 24 percent. Housing will take up a rising share of earnings, while spending on cultural and other services will also go up, to 8 percent.

The municipality should work harder to educate the population in consumption matters and formulate policies and measures to encourage sensible consumer behavior.

## Chapter 21. National Land Development And Management

During the Seventh 5-Year Plan, the municipality should follow the objective demands of the laws of nature and economics and seriously tackle national land development and management.

It should draw up a municipality-wide outline plan for land management up to the year 2000 and continue comprehensive research and evaluation on land development. It must make water and soil conservation and the prevention of desertification an integral part of the capital's drive for modernization and carry out the national government's "Three Bei's" shelter forest plan and its tree-planting and greening plan involving Tianjin, Zhangjiakou, Chengde, Tangshan, and Beijing.

Urban and rural land management must be strengthened and practical measures taken to protect farmland. It must intensify geological work and launch research on all geological resources, the most important of them being water, and concentrate on the comprehensive research of hydrogeology, engineering geology and environmental geology. It must gradually complete surveying on water resource bases for satellite towns and continue its geological work in search of minerals and water, expand its prospecting area for geothermal energy resources, and complete its general evaluation of geothermal energy. The goal is to find two or three developable geothermal fields.

## Chapter 22. Reform of the Economic System and Horizontal Economic Cooperation

In line with the state's centralized plan, Beijing should continue to reform the economic system even more thoroughly, further straighten out various relations, and fully unleash the initiative and creativity of the vast numbers of enterprises and workers.

1. It should continue to invigorate enterprises, especially large and medium-sized state-owned enterprises. Even as it upholds the primacy of the socialist system of public ownership, it should keep up its effort to

encourage different forms of ownership and diversified operational methods. In accordance with the state plan, it should systematically reduce or waive the regulation tax, allow accelerated depreciation when circumstances justify, gradually adopt the factory director (manager) responsibility system, perfect the economic responsibility system within enterprises, reform wage, incentive and labor systems and further augment the managerial autonomy of enterprises and enhance their capacity for self-accumulation, self-transformation, and self-development.

2. The municipality should develop a socialist commodity market and gradually build up a sound market system. On the basis of rising output, it should continue to reduce properly the variety and number of products under centralized state allocation, perfect the contractual ordering system for agricultural byproducts, do its best to develop inter-region, inter-sector commodity circulation, and constantly enlarge the markets for consumer goods and means of production. If possible, it should systematically open up a technical market and money market provided that the need exists for them.

3. It should pursue price reform firmly but steadily, based on the principle of combining regulation with liberalization. The core of price reform should be a step-by-step effort to end the underpricing of such means of production as energy resources and raw materials.

4. It should establish a new socialist macroeconomic management system, further reform the planning system, appropriately reduce the relative importance of command planning while expanding the scope of guidance planning and market regulation, slowly strengthen and perfect the indirect control system, and shift the focus of planning to economic policies, economic leverage and macroeconomic management and regulation. It should adapt to changes in the functions of government economic agencies and reinforce comprehensive economic management agencies and economic supervision and oversight agencies.

5. Strengthen Horizontal Economic Cooperation
It should make full use of the capital's role as a political and cultural center, continue to eliminate departmentalism, break down regional barriers and throw open its doors to forge horizontal economic linkages of different kinds, in different forms and at different levels in accordance with the principle of exploiting one's strengths and downplaying one's weaknesses, mutual benefit and joint development.

1. On the basis of voluntarism and mutual benefit, it should launch a drive, spearheaded by its flagship products, to encourage the establishment of a variety of enterprise groupings at different levels in order to promote the rational circulation of capital, equipment, technology and qualified personnel.

2. It should steadfastly follow the "Bailan way" and energetically promote horizontal urban-rural economic cooperation through the farming out of production, joint development, direct linkage between production and sale, and other methods.

3. It should vigorously establish closer ties with such neighbors as Chengde, Baoding, Zhangjiakou, Tangshan and Langfang.

4. It must systematically initiate horizontal economic cooperation with other places throughout the nation.
5. In light of the needs of production development in the capital, it should cooperate actively with other localities through material exchange.
6. It should step up its support for the Nei Menggu Autonomous Region in a way geared to the latter's needs.

## Chapter 23. Economic Information

Beijing must improve its economic information management system. It must establish a multilevel economic information network and master traditional informational techniques, and on that basis, strengthen forecasting techniques and modernization.

Beijing's automated management system for economic information should adopt modern information technology, economic mathematics, and scientific management to gather, process, manage and transmit information in order to provide government economic agencies at all levels with economic information and relevant social information accurately and promptly. It should strengthen statistical information work and statistical supervision, develop statistical analysis and economic forecasting, and perfect input-output statistics.

The development focus of the municipality's automated management system for economic information is the main system based on the economic information center. This system should gradually link up with various departments in the central government and with provinces and municipalities. As the central processing station for the municipality's automated management system, the municipal planning statistical and computation station is responsible for a range of data management tasks including planning, statistics, forecasting and decision-making support. In building up its economic information management system, the municipality should set priorities, tackle the easier tasks before the more difficult ones, promote work in all areas by drawing upon experience gained at key points, and proceed step by step.

## Chapter 24. Socialist Spiritual Civilization

During the Seventh 5-Year Plan, the municipality should elevate the construction of the socialist spiritual civilization to an preeminent position so that after a few years' hard work, Beijing will become the best city in the nation in terms of civic discipline, law and order, social climate and moral tone.

1. It should fortify and improve ideological and political work in earnest. It must educate the people in the four basic principles even more thoroughly and inculcate in them such values as patriotism, collectivism, "ideals, morality, culture, discipline," social ethics and professional ethics. It should vigorously pursue the "five stresses, four beauties and three loves" campaign, the drive to "establish civilized units through military-civilian cooperation," as well as activities to encourage the people to be "civilized citizens, set up civilized units and build a civilized city," and voluntary communist labor. It must establish a powerful political and ideological work system suited to the characteristics and demands of the new era, strengthen

party leadership over political and ideological work, adjust and expand the contingent of specialized political work cadres, make the best use of trade unions, the Communist Youth League, the Women's Federation and other mass organizations and social groups, and actively discover new principles and new methods in ideological and political work in the new era.

2. Beijing will continue to deal with law and order problems comprehensively. It must continue to crack down on serious crimes, including economic crimes, to cutting the crime rate to the lowest level ever within a few years. It should aggressively intensify education for adolescents and young people as a way of lowering juvenile delinquency. Management responsibility systems for public places must be beefed up to improve public order. Effective measures must be taken to lessen serious fires and other hazards to public safety. Law enforcement agencies must be strengthened with more and better personnel.

3. The construction of socialist democracy and legal system must be intesified. Socialist democracy must be enhanced. Governments at all levels should highly respect the people's congress and its standing body at the corresponding level and submit to their supervision. In addition, they should seriously deal with all resolutions and proposals put forward by delegates to the people's congress and members of the Chinese People's Political Consultative Conference [CPPCC]. Visits by and letters from members of the public should be treated similarly.

Even as it earnestly implements the various laws, rules and regulations issued or formulated by the standing committee of the National People's Congress, the State Council and the standing committee of the municipal People's Congress, it should establish sound regulations of an administrative nature at the local level and gradually put together a complete and coherent legal framework for urban management. It is laws and regulations that should be used to govern people's conduct and regulate all relations in social life and economic life.

In line with the plans of pertinent agencies in the central government, the municipality must effectively publicize and impart general legal knowledge to the people. Colleges should offer legal courses extensively while elementary and secondary schools must make general legal knowledge part of their curricula.

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## ECONOMIC PLANNING

### YUNNAN RIBAO OUTLINES OBJECTIVES FOR 7TH 5-YEAR PLAN

Kunming YUNNAN RIBAO in Chinese 23 Dec 85 p 1

[Report by Feng Yingyu [7458 5593 0056]: "Promoting Urban and Rural Reform, Improving Economic Results: Provincial Government Proposes Five Targets for Endeavors in Economic Work Next Year"]

[Text] The Five Targets for Our Endeavors Are: 22 Billion Yuan of Total Output value for Our Industrial and Agricultural Enterprises; 20.5 Billion Jin of Foodgrain Production; 3.3 Billion Yuan of Total Income for Our Rural Enterprises; 25 Percent Increase in Total Value Over That of This Year for Our Export Commodities; and More Than 2.6 Billion Yuan in Our Financial Revenues

Most recently, the provincial people's government, after summing up and analyzing this year's situation of economic work in our province, has made clear its guiding ideology and proposed five targets for its endeavors in the province's economic work next year.

The guiding ideology and targets of the provincial people's government in the province's economic work next year have already gone through full discussion by delegates who participated in the provincial economic work conference (concluded on 16 December). Next year, in our economic work we must grasp simultaneously the two civilizations, adhere to the promotion of urban as well as rural reform, improve our economic results, enhance the creation of foreign exchange through exports, arrange well our urban and rural markets, and assure the continued, steady and coordinated development of the national economy in our province. Under the premise of assuring the fulfillment of our various economic plans, we must realize five targets for our endeavors: One is to help total output value of the province's industrial and agricultural enterprises reach 22 billion yuan; the second is to help total production of foodgrains to reach 20.5 billion jin; the third is to help total income of our rural enterprises reach 3.3 billion yuan; the fourth is to help the total value of our export commodities increase by 25 percent this year; and the fifth is to help our financial revenues reach more than 2.6 billion yuan.

In order to realize the aforesaid targets, the provincial people's government has asked leading comrades of all economic departments to give priority to doing a good job in handling our reform and adhere to the promotion of our urban and rural reform. In order to enliven our enterprises, we must externally create conditions for our enterprises, mainly by implementing pertinent policies, regulations of the State Council and our provincial government and putting our efforts on improvement and systematization. According to the requirement of enlivening one-third of our enterprises first, we should select a batch of enterprises and study them one by one by adopting the individual-level responsibility system, e.g., thereby reducing or exempting their regulatory levies in a planned way, raising their depreciation rate and leaving most or the entirety of such depreciation funds to the enterprises themselves, solving the problem of random assignment of costs to or collection of levies from the enterprises, cleansing and rectifying the administrative companies and strengthening the management of their trades and improving their service operations, giving full scope to the role of core cities and strengthening macroeconomic control. Speaking from the standpoint of the enterprises, their sight must be turned inward to deepen their internal reform, strengthen their enterprise management, and enhance their enterprise capability of absorption and endurance. In order to realize the next year's targets for our endeavors in economic work, we must further do a good job in handling the relationship between macroeconomic control and microeconomic enlivening, speed and results, foodgrain production and diversification, increase in financial revenues and relaxation and enlivening, so as to achieve control without resulting in rigidity and vitality without causing disorder, and thereby maintain a definite speed of growth under the premise of improving economic results.

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## AGGREGATE ECONOMIC DATA

### HEILONGJIANG TOWNSHIP ENTERPRISES' POTENTIAL DISCUSSED

Beijing ZHONGGUO XIANGAHEN QIYE BAO in Chinese 7 Dec 85 p 4

[Report by Zhang Zhizhong [1728 3112 0022]: "Turning Strong Points in Resources into Strong Points in Products; Overall Output Value of Township and Town Enterprises of Heilongjiang Province Can Be Expected to Exceed 4 Billion Yuan This Year"]

[Text] Heilongjiang is a precious land; it has strong points of great advantage in its resources for the development of its township and town enterprises. The province has 130 million mu of arable land, which makes up 8.8 percent of the country's total. The production of soy beans, potatoes, flax, and sugar beets ranks first in the country. Heilongjiang is also the largest lumber production base of our country, with a total cumulation of more than 1.42 billion cubic meters, which makes up 15.3 percent of that of the whole country. Here are found indigenous products such as ginseng, deer horn, musk, acanthus, magnoliavine fruit, day lilies, edible fungi, mushrooms, and monkey's heads; wild grapes, heijialun, shandingzi, strawberries, malinguo and the like are all raw materials with a high nutritious value for brewing.

Heilongjiang Province also has very rich underground resources. Of the more than 50 mineral deposits here, the deposits of petroleum, coal, gold, copper, lead, zinc, and graphite all occupy an important status in the country.

Since the 3d Plenary Session of the 11th CPC Central Committee, the provincial party committee and provincial government have conscientiously sought to implement the principles, policies and directives of the party Central Committee and the State Council on the development of township and town enterprises by carrying out a series of new strategies of development and concrete, effective measures, and thereby made possible the manifestation of unprecedented development in its township and town enterprises, blazed a path of proceeding from reality and turning its strong points in resources into strong points in products and strong points in comprehensive economic results, and thus preliminarily forged a situation of the township and town enterprises marked by Heilongjiang's own characteristics. From 1979 to 1984, the number of the province's township and town enterprises increased from 23,000 to 109,000; their employed personnel increased from 487,000 to 817,000, making up 16.9 percent of the labor force in the countryside; their overall output value increased from 200 million yuan to 2.87 billion yuan, making up 23.7 percent of the overall output value of agriculture; their overall income increased from 890 million yuan to 2.49 billion yuan, making up 26.1 percent of the overall income of the countryside; their submitted taxes increased from 50 million yuan to 110 million; and their realized profits increased from 140 million yuan to 240 million yuan. At the end of 1984, the net fixed assets of the township and town enterprises amounted to 1.23 billion yuan, plus more than 600 million yuan of self-owned floating capital.

During the past few years, a pattern of scientific research-type production management combined with the open type of township and town enterprise economic structure has been taking shape. Among the agricultural and sideline products there have appeared preliminarily the "five dragons" of the planting, processing and sales of flax, ginseng, heijialun, potatoes, and wild juicy fruit; this has started to present an "all dragons flying" situation. The province's township and town enterprise coal mines have developed to over 300, which in 1984 produced 7.52 million tons of raw coal, making up 45 percent of the local coal production; this year, it is estimated that they would produce 8.5 million tons of raw coal, to make up more than half of the local coal production. Rural gold mining, too, has achieved a yearly production of over 70,000 liang, with an output value exceeding 200 million yuan. Among the construction materials industries, the production of several major products of the township and town enterprises have all made up 50-70 percent and above of the province's total production. The province's township and town enterprises have already created more than 70 products judged to be superior by the ministry and by the province.

Since the beginning of this year, the principal responsible comrades of the provincial party committee and provincial government have repeatedly gone to other provinces and municipalities to study township and town enterprises, and they have also adopted some new measures to enable the speed of development of Heilongjiang Province's township and town enterprises to accelerate conspicuously, and their economic results to improve prominantly, with the appearance of a momentum of all township-run (town), village-run, jointly-run and household-run enterprises making a go at the same time. Of these, township-run (town), enterprises have increased 22.4 percent over those of 1984; village-run ones have increased 18.5 percent; jointly-run and household-run ones have increased 2.2 times, already making up 7.7 percent of all households in the countryside. The lateral economic connections of township and town enterprises have also continued to develop, with more and more enterprises breaking through the traditional closed type of management, thereby embarking upon a course of opening up and enlivening, urban and rural integration, and integration of production and management with scientific research.

After the party's national conference of representatives, the Heilongjiang provincial party committee and provincial government as well as the township and town enterprise departments are now, according to the guiding principles and requirements put forward in the "Resolution of the CPC Central Committee on the Formulation of the Seventh 5-Year Plan for Our National Economy and Social Development," formulating the developmental strategies and concrete measures prescribed by the Seventh 5-Year Plan. This reporter has learned from the concerned departments that the overall output value of township and town enterprises in Heilongjiang Province is expected to break through 4 billion yuan, scheduled to double that of 1980 by 1.3 times. In 1990, personnel engaged in the township and town enterprises will increase to 2 million, and by the end of the century, to 3 million. By that time, they will make up more than half of all laborers in the rural areas of the province, with the overall output value of the township and town enterprises making up 60 percent or more of the overall agricultural output value.

The strategic guiding ideology of Heilongjiang Province in the development of township and town enterprises is: to conscientiously implement the guiding principle determined by the party Central Committee on "active support, rational planning, correct guidance, and reinforced management" and proceed from the province's characteristics and strong points, establish a reasonable pattern from the reform of the economic structure and the readjustment of the industrial structure in the countryside, adhere to making "all 4 wheels" turn at the same time, extensively import technology, talents and capital and actively promoting technological progress, insist on the comprehensive management of agriculture, industry and commerce all at once and the overall development of all trades in the countryside, comprehensively exploit and utilize existing rich resources on the basis of steadly developing foodstuff production, endeavor to succeed within the shortest possible time in catching up with the advanced provinces and thereby entering into the ranks of the advanced throughout the country.

In order to realize this ideal, Heilongjiang Province has conscientiously implemented the spirit of the party's national conference of representatives, further promoted the experience of "one contract-out and three reforms," practice the policy of opening up in a comprehensive manner, actively carry out importing from without and linking up within, import "short-term, level, and quick" technologies and technologies that can reinforce their aftereffects, actively renovate and tap potentials, adopt new technologies and new techniques, and thereby endeavor to succeed in enabling the township and town enterprises to develop even more solidly.

The township and town enterprises of Heilongjiang Province have taken their stand in agriculture, relied on their rich resources, and achieved considerable development. Heilongjiang is willing to establish even broader economic links with both domestic and foreign concerns, to welcome domestic and foreign factories and businessmen to export technologies, equipment and capital to township and town enterprises in Heilongjiang Province and come to their localities to open up factories independently or jointly and launch various trades. Rural enterprises in Heilongjiang are willing to provide the cooperators with definite favorable conditions. To those who present policy proposals to Heilongjiang, rich rewards will be granted. To talents who are willing to come to settle down in Heilongjiang, preferential care will be rendered to them from all angles.

During his interviews, this reporter has become deeply attracted by the rich resources of Heilongjiang Province and affected by the enthusiasm of the cadres at all levels and vast ranks of the masses there in developing their township and town enterprises. It can be predicted that during the Seventh 5-Year Plan period or slightly thereafter, the township and town enterprises in Heilongjiang will march into the advanced ranks of the nation.

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## REPORTAGE ON SHANGHAI-HUNAN LATERAL TIES TALKS

### Leaders Hold Discussions

HK110437 Hangsha Hunan Provincial Service in Mandarin 2200 GMT 11 Jun 86

[Excerpts] Hunan's lateral economic ties with Shanghai should be built on the basis of mutual understanding and benefit, with each supplying what the other needs. In this way the scope of the ties will expand still more, contacts will be more frequent, and the results will be still more conspicuous. This was the common view of leaders of the Hunan provincial government economic and technological cooperation and of party and government leaders of Shanghai during their first round of talks on 11 June. The participants in the talks included Shanghai Mayor Jiang Zemin.

Mayor Jiang Zemin said: Hunan and Shanghai have made an excellent start as a result of 2 years of economic ties and cooperation. Both sides have sincere hopes regarding these talks. We should succeed in expanding the goals of the ties and cooperation. Cooperation projects already identified should be arranged as soon as possible. The two sides can hold further explorations regarding those projects not yet fully identified and launch them when the conditions are ripe.

Hunan Governor Xiong Gingquan reviewed the situation in ties and cooperation between Hunan and Shanghai since 1984. He said: By now, 13 Hunan prefectures and cities have established friendly ties with 11 Shanghai districts and 5 counties. Over 400 agreements have been signed. The economic results of many of these projects are very good.

There are very broad prospects for ties and cooperation between Hunan and Shanghai. Hunan has strong points in resources. Shanghai has strong points in talent, capital, technology, and so on. By combining these strong points, we will form a new organic strong point. We hope the two sides will expand their ties through a variety of channels and forms.

### Forum Views Ties

HK150255 Changsha Hunan Provincial Service in Mandarin 2200 GMT 14 Jun 86

[Excerpts] The provincial economic and technological cooperation delegation now in Shanghai invited leaders of Shanghai Municipality and its districts and counties and of units concerned to a forum on 14 June to discuss Hunan-Shanghai lateral economic ties.

Xiong Gingquan, leader of the Hunan delegation, warmly praised Shanghai's support for Hunan. He said: We must have a long-term viewpoint in making a success of cooperation ventures. Hunan has strong points in resources, but these can only be a potential and cannot be brought into full play unless they are integrated with Shanghai's strong points in talent, technology, management and so on. At the same time, cooperation projects must be based on actual needs and possibilities, and be run in accordance with the laws of the development of commodity economy.

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## ZHENGZHOU CITY CPC COMMITTEE TO REVIEW PROGRESS OF REFORM

HK120315 Zhengzhou Henan Provincial Service in Mandarin 2200 GMT 11 Jun 86

[Excerpts] According to ZHENGZHOU WANBAO, in view of the questions of how to correctly view reform, consolidate and develop the fruits of reform, and carry out the reforms in greater depth, the Zhengzhou City CPC Committee has decided to spend some 2 months, beginning now, in carrying out a citywide review of the progress of reforms. The committee has explicitly pointed out that for party-member cadres, taking part in and protecting reform and standing in the forefront in reform means upholding party spirit.

The City CPC committee's main views on making a review a reform are: The reforms that arise in reform must be solved in the course of carrying out reform in depth; we cannot withdraw when we encounter difficulties, retreat when we encounter friction, and go back to the old road; the leaders must take a firm and clear-cut stand in supporting the reformers; those who have been bold in pioneering and have scored outstanding achievements should be rewarded or promoted as appropriate, without taking any notice of gossip; regarding reformers who have scored achievements and also made mistakes, we should under the premise of affirming their achievements, point out the problems and also help them to sum up experiences and lessons, to enable them to attain self-improvement and enhancement; the leaders must not take an equivocal attitude toward people who, swayed personal considerations, fabricate facts, make groundless accusations, and make things difficult for the reformers, but must investigate the truth, support what is right and dispel what is wrong.

We must resolutely practice the plant manager and director responsibility system and hand over to the managers all the powers over manpower, finances, and so on that they should hold. The departments in charge are not allowed to obstruct this work, and the enterprise CPC committees are not allowed to make things difficult. We must ensure that the plant managers can correctly exercise their policymaking and command powers in production operations and administrative work. We must unswervingly delegate to the enterprises all powers that should be delegated to them.

The key to delegating powers lies in streamlining the administration. Structural reform in the city organs must be carried out synchronously with the economic reforms. We must resolutely change the lack of coordination between administrative controls and the employment of people.

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CSO: 4006/1114

## CHENGDU MAYOR SPEAKS ON NEXT STAGE OF URBAN REFORM

HK130229 Chengdu Sichuan Provincial Service in Mandarin 2200 GMT 12 Jun 86

[Excerpts] Chengdu Mayor Hu Maozhou stressed at a meeting on urban economic structural reform on 12 June that Chengdu must focus on two points for breakthroughs in the next stage of urban economic structural reforms: 1) Strengthen lateral economic ties and promote the vigorous development of production; 2) Perfect the system of city administration of counties and further promote the integration of urban and rural areas.

Comrade Hu Maozhou said: We must currently focus on solving problems of understanding. New systems cannot replace old ones all at once. Such a change is a gradual, not a sudden, change. We are currently in the period of making the transition from the old to the new systems. Both new and old systems are playing a role at present, but neither of them predominates. The contradictions in the complexity and the arduous nature of reform have therefore become extremely prominent. We must precisely create conditions to break through as soon as possible the difficulties involved in switching from the old to the new systems, and build a socialist economic system with boundless vitality and Chinese characteristics.

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## SICHUAN'S YANG RUDAI LEADS INVESTIGATION

HK140641 Chengdu Sichuan Provincial Service in Mandarin 2200 GMT 13 Jun 86

[Excerpts] On 12 and 13 June, Provincial CPC Committee Secretary Yang Rudai led responsible comrades of provincial departments and bureaus concerned to do on-the-spot work at Deyang City and investigate and study problems of perservering in reform, speeding up economic development, and enlivening commodity circulation.

During his investigation, Comrade Yang Rudai fully affirmed the work in Deyang City. He said: In carrying out economic work, we must advocate the mental state of fearing no hardship and fatigue in devising every means to make the people rich. He expressed the hope that Deyang City will [word illegible] Sichuan's Wuxi and Suzhou. He told the responsible comrades of the city CPC committee and government: It is essential to carry out explorations in order to invigorate the economy. However, the cadres must be taught not to abuse their powers.

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ECONOMIC MANAGEMENT

## FUJIAN'S CHEN GUANGYI DISCUSSES ENTERPRISE REFORM

OW150813 Fuzhou Fujian Provincial Service in Mandarin 1030 GMT 13 Jun 86

[Excerpts] Chen Guangyi, secretary of the provincial CPC Committee, made a speech entitled "Energetically and Steadfastly Support the Reform of Enterprises in All Fields," at a meeting to deepen the reform, promote production, and stimulate the circulation, which ended in Fuzhou this afternoon.

Comrade Chen Guangyi said: While carrying out the policy of consolidating, assimilating, replenishing, and perfecting the reform this year, it is necessary to further adopt a series of reform measures and put them into practice simultaneously in order to improve and deepen the reform of enterprises. We should persist in, support, and promote the reform with our greatest determination and tenacity.

Comrade Chen Guangyi said: It is necessary, first of all, to persist in the reform, wherein lies the hope of China. Reform is the paramount political task of all party members.

Second, it is necessary to suport the reform. All party committees and departments of comprehensive economic management should support the reform as the work in other fields. Provincial and city party committees should take a clearcut stand in supporting the reform of enterprises, and do everything possible to solve their problems. Furthermore, it is necessary to realistically deal with problems cropping up in reform. Reform is a systems engineering project and an experiment. As experiment always involves risk, we should never demand perfection in reform. So long as an enterprise does not seek selfish gains in the name of reform, its interests should be protected.

Third, it is necessary to promote reform. The guiding principle for reform this year is to consolidate, assimilate, replenish, and perfect it. This is a positive principle, and should not be interpreted as stopping everything to consolidate the reform. Still less, it should not be interpreted as re-exercising the control. Due to the protracted leftist influence, we were apt to do things uniformally and think in terms of absolutes. We should never make the same mistake. We should advocate steadfastness and overcome vicissitude.

It is necessary to boldly promote lateral economic cooperation among enterprises and break the barriers to enliven the circulation. It is also necessary to improve the efficiency to promote the production. The situation in Fujian's industrial production in the first 5 months of this year does not allow us to be optimistic. Leaders at various levels and all enterprises should work conscientiously to promote production and improve efficiency through carrying out reform, and try their utmost to ensure fulfilling this year's planned tasks.

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## GUANGXI'S CHEN HUIGUANG ADDRESSES ECONOMIC CONFERENCE

HK170129 Nanning Guangxi Regional Service in Mandarin 1000 GMT 16 Jun 86

[Excerpts] The 6-day regional economic work conference concluded yesterday. Regional CPC Committee Secretary Chen Huiguang delivered a summation report entitled "Persevere in, Support, and Protect Reform, and Speed up Guangxi's Economic Development."

Secretary Chen Huiguang stressed that persevering in, supporting, and protecting reform is a very important issue at present. It is also the key to whether Guangxi can promote its economy and achieve transformation as soon as possible. The aim of reform is to emancipate the productive forces, do a good job in construction, and enrich the country and the people. Persevering in reform is of all the greater practical importance for Guangxi, because our economy is rather backward and our development slow. At present we must do our work in accordance with the principle of consolidation, digestion, replenishment, and improvement put forward by the central authorities.

We must do our work creatively and be creative in implementing the central policies and principles. To succeed in this, we must step up investigation and study. We must also step up policy studies. We must take full advantage of the favorable conditions afforded by the central authorities' designation of Guangxi as belonging to east China in the economic sphere, and boldly refer to the experiences of east China provinces and municipalities in taking the lead in reform, opening up, and invigorating the economy.

On the question of how to support reform and act as promoters of reform, Chen Huiguang said: The party and government leading organs and functional departments must further embrace the concept of serving the grassroots, unite and cooperate, and support each other. They must create an excellent environment and atmosphere for reform in the grassroots units.

On the question of protecting reform, Chen Huiguang said: We must draw clear demarcation lines in policies. We must not confuse economic activities allowed by the policies with unhealthy trends. We must not confuse ordinary deviations from economic policies with economic crime. We must not confuse certain errors in reform and work with taking advantage of loopholes in reform to abuse one's powers. We must clearly distinguish and evaluate the merits and errors of reformers in a truth-seeking way. The correct attitude toward reformers' errors is to look at the main current and the overall situation, encourage them to explore, allow them to make mistakes, and provide correct guidance for them.

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## SICHUAN HOLDS WORK CONFERENCE ON INDUSTRIAL PRODUCTION

HK101354 Chengdu Sichuan Provincial Service in Mandarin 0930 GMT 9 Jun 86

[Excerpts] On the afternoon of 6 June, the Provincial People's Government held the third on-the-spot work conference in Chengdu City on industrial production, to listen to the reports of Zhu Yongming, vice mayor of Chengdu City, and (Bai Degao), chairman of the city economic commission, on the situation in Chengdu City in implementing the spirit of the conference on industrial production held by the Provincial Government in Chongqing and on arrangements for industrial production for June.

Regarding the problem of electric power now existing in industrial production, the work conference held: Arrangements for the supply of electric power in Chengdu City must be made according to a different situation so as to guarantee the supply of electricity for production.

Regarding the problem of electricity used in the production of grey cloth, the work conference held: In view of the fact that the textile industry is now developing relatively quickly and that grey cloth is in short supply, we must now guarantee the supply of electric power used in the production of grey cloth.

Regarding the problem of scrap iron and steel, the conference decided that the provincial planning and economic commissions, Chengdu City, and departments concerned should continue to organize an investigation group, which must investigate and analyze the reason for being unable to recover scrap steel in Chengdu City and then work out measures for solving the problem.

Vice Governor Ma Lin stressed at the conference: At present, it is necessary to pay attention to the implementation of the system of economic responsibility and the system of the factory director assuming sole responsibility within the enterprises, to persevere in reform, to strengthen management, to improve operations, and to take the road of expanded production.

At present, we must grasp both speed and economic results. We must attach importance to the quality of products and work hard to reduce the consumption of materials.

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## GUIZHOU ON-THE-SPOT WORK GROUP HELPS GRASSROOTS

HK101538 Guiyang Guizhou Provincial Service in Mandarin 2200 GMT 9 Jun 86

[Excerpts] In the middle of May, the Provincial People's Government organized an on-the-spot work group, which has made a circuit of various places throughout the province to work there.

In only half a month's time, the group solved approximately 200 urgent problems which had affected production, thus vigorously promoting the development of current industrial and agricultural production in the whole province and further strengthening confidence in fulfilling the quotas for production of our province for this year.

Led by Vice Governor Zhang Shukui, the provincial government's on-the-spot work group was organized in the critical situation which our province's industrial and agricultural production was facing.

From 15 to 31 May, the on-the-spot work group successively went to places, including Duyun, Kaili, Zunyi, and Anshun, and jointly held on-the-spot work conference respectively with the governments of the Giannan Autonomous Prefecture and Giandongnan Autonomous Prefecture; the commissioner's offices of Tongren, Zunyi, and Anshun Prefectures; and responsible comrades of China (Zhenhua) Electronics Industry Company and the Guizhou Administrative Bureau of the Ministry of Aviation Industry. In Anshun, the group jointly held meetings on arrangements for production respectively with the governments of the Gianxinan Autonomous Prefecture and Liupanshui City, the Bijie Commissioner's office, and the Guizhou Administrative Bureau of the Ministry of Astronautics. Of the 300 problems of production put foward by various quarters, they solved 198 problems locally. They further aroused the enthusiasm of all prefectures, autonomous prefectures, cities, and departments for doing a good job in production and enhanced their confidence in fulfilling this year's production quotas.

The on-the-spot work groups of the provincial government were able to score relatively great achievements in their work and there were three main reasons:

1. Proceeding from realities, a practical, crack, and vigorous work group was organized. The group comprises responsible comrades of the provincial planning commission, provincial economic commission, provincial commission of agricultural economics, finance department, banks, and petroleum company.

2. A guiding ideology of serving the grassroots and solving practical problems was established.

3. The group was bold in proceeding from realities and in creatively working. In the course of working, the group did not indiscriminately copy the experience of others and demand uniformity in everything. It humbly listened to the views of all places and in accordance with local conditions, formulated some new methods which suited our province's situation.

After listening to the report of the provincial government party group on the work of the on-the-spot work group, the provincial CPC committee held that the work of the on-the-spot work group of the provincial government was successful and demanded that all prefectures, autonomous prefectures, cities, and departments promptly popularize its method and experience, improve organs' work style, raise work efficiency, and serve the grassroots still better.

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## ZENG SHENDA ON SHAANXI STATE-RUN ENTERPRISE DEFICITS

Xian SHAANXI RIBAO in Chinese 22 Nov 85 p 1

[Report by Wang Jianming [3769 1696 2494]: "Vice Provincial Governor Zeng Shenda [2582 1957 6671] Demands Various Areas and Various Departments: Earnestly Strengthen Leadership, Endeavor to Fulfill This Year's Task in Reversing Our Losses"]

[Text] Vice Governor Zeng Shenda pointed out at the recently convened briefing conference of some of our prefectures and municipalities, divisions and bureaus in charge, on their loss-reversing work: all prefectures and municipalities, divisions and bureaus in charge, must earnestly strengthen their leadership, adopt effective measures, grasp well their work in the final 2 months, and endeavor to fulfill this year's loss-reversing task. He commended units like the Xian Municipality, Weinan Prefecture, the province's national defense scientific research office, and the province's medical and pharmaceutical control bureau, whose loss-reversing work had been done fairly well and whose results had been quite conspicuous, and he also criticized Baoji Municipality, whose loss-reversing work had been carried out rather slowly.

Since the beginning of this year, the province's loss-reversing and profit-increasing work has achieved definite results. In the province's budget, losses by state-run industrial enterprises have gone down by 3 percent compared to those of the corresponding period last year; of the 22 enterprises which lost more than 200,000 yuan, 10 have already turned their losses into profits. But the gap shown by certain prefectures and municipalities remains considerable, which affects the completion of such loss-reversing work by the whole province.

Comrade Zeng Shenda pointed out, various prefectures, municipalities and departments in charge must establish a loss-reversing chief responsibility system, conduct an analysis of the losing enterprises one by one, guide them concretely, adopt effective measures, eliminate the major losing enterprises, and endeavor to realize the loss-reversing goals set at the beginning of the year. We must continue to carry out the policy of "providing no further subsidies to those enterprises which sustain excessive losses, and having them share a percentage of retained funds when they reduce their losses," i.e., when losses exceed those allowed by the established plan, the financial departments would no longer give them any subsidies and would directly reduce and retain the percentage of profits for retention and other free funds by the departments in charge. In all cases of enterprises whose losses are caused by reason of management, rewards would be withheld from them, they would not be allowed to participate in wage reform, and they cannot exercise their right of having 3 percent of their staff promoted during the period of their losses; enterprises which fail to achieve their loss-reversing goals within the given time limit would have the floating wages, incumbent wages, or even basic wages of the leaders of these enterprises withheld, so that they would earnestly shoulder their economic responsibilities. With respect to the state of implementation regarding economic results on the part of enterprises whose profits are meager and whose profits or losses are marginal, the various prefectures, municipalities and departments in charge should also conduct an inspection and analysis in order to discover problems, solve them in time, and prevent the emergence of new losing enterprises.

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## ECONOMIC MANAGEMENT

### NEI MONGGOL PRIVATELY RAISED ENTERPRISE CAPITAL REPORTED

Beijing ZHONGGUO XIANGZHEN QIYE BAO in Chinese 2 Nov 85 p 1

[Report by reporter Chen Jinlan [7115 6855 5695]: "Nei Monggol Raises 79 Million Yuan of Capital to Run Township Enterprises"]

[Text] The Nei Monggol Autonomous Region, at a time when township and town enterprises are developing with great momentum throughout the country, is now taking its first step, but the very first problem it has encountered is the tightening up of bank loans. Secretary of the autonomous region party committee Comrade Zhou Huitong [0719 1920 0681] has suggested: Let us proceed from the reality of Nei Monggol, rely on the strength of the masses themselves, and develop our township and town processing industries.

During the past few years, Nei Monggol's agriculture has developed and its animal husbandry has thrived, foodgrains have gained increases year after year, and animal commodity rates has soared continuously. All this has laid a fine foundation for our township and town enterprises. According to available statistics, since the beginning of this year funds raised by the masses themselves have reached over 79 million yuan, which are used on running processing industries and tertiary industries. There are the following good features in the enterprises run by the peasants and herdsmen in this self-reliant fashion:

1. They proceed from reality and select their projects accurately. The Guangming Village of Jianshe District, Hailar Municipality, Hulun Boir Meng ran 10 projects the first half of this year; of these 4 had their own resources and markets such as the lime plant, brick plant, fish farm, and the 50-ton refrigeration plant jointly run with the Boir Lake fish farm county 4; and 6 serve the livelihood of the local masses, these being the cover and clothing plant, restaurants, barber shops, and bathpools.

These 10 projects, because of the full investigation and clear identification of the resources and market requirements, have all fared well in their production and management.

2. Their speed of construction has been fast, and their results from investment have been equally fast. The Daxintala Township in Naiman Banner, Zhelimu Meng, while running a construction materials plant jointly with a

chemical plant in Tumen Municipality, Jilin Province, took only 50-odd days to produce painting products for interior and exterior walls from preparation to actual production. Because their quality is good, they are welcomed by the customers, so their supplies can hardly meet the demands.

3. They have adopted advanced techniques and hence produced advanced products. The Taipingdi district in the outskirts of Cifeng Municipality has imported this year from a scientific research unit in Shenyang a new technique which, after testing, helped produce cement-wooddust boards. This new product not only succeeded in making full use of branches and wastes from timber and lumber but also supplied a new type of construction material for the construction industry.

4. Their economic results are good. The Laofu Township on the outskirts of Cifeng Municipality is a rather difficult area; through approaches such as collective fund-raising and joint management, this year, it has gathered 300,000 yuan of capital to use on the transformation of old enterprises and the running of new ones, achieving very good social effects and enterprise results. The hydrofluoric acid plant invested 50,000 yuan, but has now been producing by wholesale quantities and is enjoying good sales; it will be able to recover all its investments within 1 year.

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## DISTRIBUTION OF TOWNSHIP ENTERPRISE PROFITS DISCUSSED

Beijing NONGMIN RIBAO in Chinese 26 Dec 85 p 2

[Article by Zong Jinyao [1350 6930 5069], of the Township and Town Enterprise Bureau, Ministry of Agriculture, Animal Husbandry and Fishery: "Suggestions on Doing a Good Job in Distributing Profits of Township and Town Enterprises"]

[Text] During the past few years, there has existed in the distribution of the profits of our township and town enterprises in general a problem of "two too-muchs and one too-little," that is, there having been too much submitted above and assigned below, too much welfare benefits for staff and workers, but too little subsidy to working capital. Such irrational phenomena, should we fail to change them by the adoption of active measures, are bound to seriously affect the existence and development of our township and town enterprises.

As the end of the year approaches, the distribution work concerning profits of our various township and town enterprises is just about to begin. In order to expand their own accumulation and enhance the ability of the township and town enterprises themselves to exist and develop, I hereby suggest that departments in charge of our township and town enterprises at all levels as well as our credit loan and financial departments strengthen their leadership and supervision and earnestly do a good job in grasping our tasks in distributing and using the profits of our township and town enterprises this year.

I. Help the enterprises correctly calculate their profits. They must approve the cost of their products and draw various fees and funds from them according to regulations. In the case of money from the sale of goods being not yet entered into their accounts, it shall not be included in the current year's sales income. They should really make sure their various revenues, expenditures, expenses, listed expenditures and retained amounts, and thereby calculate enterprise profits accordingly; when there are profits, so record them; when there are losses, do likewise.

II. Funds derived from tax reduction or exemption by the state should be directly diverted into funds for production and mainly used on subsidizing of shortage of working capital and renovation and transformation of equipment.

III. The total amount of enterprise profits should be subject to distribution as follows before taxation according to regulations: profit sharing by investors from abroad, retention of enterprise funds, "retention of profits from the three kinds of waste," profits from exempted income tax, and other items distributed or retained according to permission by state regulations before taxation.

IV. Carry out the system of retention of profits from the enterprises. Such percentage of enterprises profits retained shall not be less than 60 percent in general; in the case of enterprises owing considerable debt, having a rather low level of free capital, run by collective capital composed of shares, and those newly established, more may be retained; profits from overfulfillment of plans should be left to the enterprises as much as possible.

V. There should be 60-70 percent of the percentage of profits retained by the enterprises used on subsidizing shortages of working capital and fixed assets. Expenditure respecting welfare of staff and workers, etc., should be kept under 30-40 percent [of such profits].

VI. After the relevant percentage is taken out from post-taxation enterprise profits, efforts should be made to draw funds for assisting development on the basis of 1 percent of the net profits, and submit them to the township and town enterprises' departments in charge for concentrated use; the rest should be submitted to the cooperative economic organs of the districts (townships) and villages (including the original production brigades).

VII. In the case of enterprises operated with capital from collective shares, their dividends should ordinarily not exceed 20 percent of the shares; if a given enterprise earns low profits or even sustains losses, only their interests may be guaranteed without distribution of dividends; otherwise, such losses shall be proportionately shouldered by the shareholders.

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## ECONOMIC MANAGEMENT

### HUBEI TOWNSHIP ENTERPRISE SITUATION DISCUSSED

Beijing ZHONGGUO XIANGZHEN QIYE BAO in Chinese 28 Dec 85 p 1

[Report by Ding Guiqiao [0002 6311 2890]: "Hubei Township and Town Enterprises During 6th 5-Year Plan--Gain Development for Themselves While Contributing to the State"]

[Text] There emerged during the 6th 5-Year Plan a fine situation among Hubei Province's township and town enterprises of sustained, coordinated and steady development.

According to available statistics, Hubei township and town enterprises during the 6th 5-Year Plan realized altogether 4.56 billion yuan of profits and taxes. Of these, tax payments to the state amounted to 1.4 billion yuan, equivalent to 19 times the capital with which the state supported the township and town enterprises. During the 5 years, funds used on capital construction, farmland, purchase of agricultural machinery, and support of poor brigades amounted to 1 billion yuan; that spent on enlarging reproduction of the enterprises amounted to 1.6 billion yuan; and those provided to welfare industries in the countrisde amounted to 170 million yuan.

During the 6th 5-Year Plan Hubei township and town enterprises gradually broke through the old mode of dual-level management of enterprises in the countryside; there emerged a new situation in which all townships, villages, groups, and households chipped in, with all wheels turning at the same time. During those 5 years, the capital of enterprises cooperatively operated by peasants with their collective funds and run by family investment amounted to 1.5 billion yuan.

Meanwhile, the Hubei township and town enterprises broke through the constraints of the "three locally-operated" models and the small world of the economy of small farmers and marched toward the world. During the 6th 5-Year Plan, the province's main products for export included barite, marble, granite, hardware, silk carpets, engraved shells, and feather and velvet clothing. These products were sold to more than 40 countries and areas such as Japan, the United States, and those in West Europe, and Southeast Asia. During the 5 years, the output value of the province's export products amounted to 240 million yuan.

During the 6th 5-Year Plan, there emerged among Hubei's township and town enterprises a batch of fine-quality products. By the end of 1985, 158 varieties were appraised as provincial fine products, 60 appraised as provincial fine-quality products, and 18 products winning the fine-quality title by the ministry and the state.

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# HOU JIE ON DEVELOPING HEILONGJIANG'S RURAL ENTERPRISES

Beijing ZHONGGUO XIANGZHEN QIYE BAO in Chinese 6 Nov 85 p 1

[Article by staff reporter Wang Ying [3769 4481]: "Hou Jie, Governor of Heilongjiang Tells Staff Reporter: " We Must Base Ourselves on Local Characteristics in Developing Township and Town Enterprises and Require Speed under the Premise of Guaranteeing Quality and Results"]

[Text] When Hou Jie [0186 2212], governor of Heilongjiang received reporter Wang Ying, he said that in developing our township and town enterprises we must base ourselves on local characteristics and require the development of speed under the premise of guaranteeing quality and results.

Comrade Hou said, Heilongjiang Province is a foodgrain base of the state. In the past, the idea of singularly grasping foodgrain production was rather steadfast, and recognition of the great significance of developing township and town enterprises was quite slow; hence the first step was taken rather late. Since the 3d Plenary Session of the 11th CPC Central Committee, the pace has quickened, and it became even faster during the past couple of years. Last year, the total output value of the province's township and town enterprises amounted to 2.87 billion yuan; this year it is expected to reach 4 billion yuan. But, compared to other fraternal provinces and autonomous regions, the gaps are still quite great. In 1984 the total output value of Heilongjiang's township and town enterprises ranked 21st in the country. Evidently, the speed of the development of township and town enterprises in Heilongjiang Province has been not fast, but slow.

Comrade Hou Jie said, in Heilongjiang Province resources both above and below ground are rich; they possess the great potential to develop our township and town enterprises. In 1984 the province's foodgrain production already broke the threshold of 35 billion jin, thus achieving a low-level surplus. Domestic animals and fowl have been developed even faster; in the case of pigs and cows, they have already exceeded the best level in our history; the number of milk cows raised has reached more than 240,000 head, ranking first in the nation. Raw coal and crude oil, natural lumber and raw beans, etc., are all well known not only within the country but also reputable in the international market. After the joint production contract responsibility system was put into practice in the countryside, there has accumulated a great surplus in labor; in particular, because the winter in Heilongjiang is rather long, the vast ranks of the peasants have a half year's surplus labor time on their hand. Should these considerable material resources and labor resources become fully exploited, and in the readjustment of the structure of our farming industries we could follow the policy of taking agriculture as our foundation and develop our agriculture, forestry, animal husbandry, sideline enterprises and fishery comprehensively, and thereby make arrangements for our large-scale agriculture, while we also shift in a planned way our surplus labor force and surplus labor time to the township and town enterprises, work on the processing of our agricultural and sideline products, actively develop small-scale mining industries and construction materials industries, then, the development of Heilongjiang's township and town enterprises would have a great future, indeed.

Comrade Hou Jie said, to seek truth from facts and carry out concrete analysis in the case of concrete problems is our party's ideological line and the guiding ideology by which we formulate our policies. On the basis of Heilongjiang Province's subjective and objective conditions, we are of the opinion that the speed for the development of our township and town enterprises should be faster. Of course, we should not compare blindly, and in development should pay attention to quality, pay attention to economic results and pay attention to the enduring capability of our society and simultaneously formulate our policies. In Heilongjiang Province, the investment loans the state has granted to our township and town enterprises, diversification and agricultural production respectively have not been very rational, as they are generally maintained at the ratio of 1:1:8. This way, loans for agricultural production are too much, which makes its production base rather fragile. We are planning to follow the ratio of 2:3:5 in order to have more investments and loans put into township and town enterprises, and thus do a good job in running these township and town enterprises and to make sure that they really yield economic results, so that we can draw a part from the profits of these township and town enterprises to support agricultural production and launch it in a benign circle and thereby create a situation in which our township and town enterprises are developed on the one hand and the foundation of our agricultural production is enabled to become stronger and stronger gradually on the other hand. For the sake of developing our township and town enterprises, policies in other respects must also be liberalized, and we must also firmly oppose the practice of demanding money from our township and town enterprises and not allow the burdens of these township and town enterprises to become too heavy.

Comrade Hou Jie finally said, it is pointed out in the Seventh 5-Year Plan put forward by the party Central Committee that "the development of our township and town enterprises is the inevitable path to revive our rural economy"; this is very correct. We must follow the direction pointed out by the party Central Committee, keep in line with Heilongjiang's reality, place the development of our township and town enterprises on an important position, and also continue to sum up our experience while making progress so as to blaze a path that both tallies with the spirit of the central authorities and possesses Heilongjiang's own characteristics.

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CSO: 4006/444

## HUNAN ISSUES MEASURES ON INVIGORATING ENTERPRISES

HK110129 Changsha Hunan Provincial Service in Mandarin 2200 GMT 10 Jun 86

[Excerpts] According to HUNAN RIBAO, the provincial government recently issued specific regulations on further invigorating large and medium state-owned industrial enterprises.

The regulations state that these enterprises are to institute the plant manager responsibility system and the system of management of targets to be attained during a manager's term of office. Large enterprises should practice the system of graded division of powers over their workshops or branch plants under the unified leadership of the main plant, and delegate to them some production operational decisionmaking powers.

Under the premise of ensuring the completion of the state plans, the enterprises may develop diversification according to market needs and their own strong points. They may operate tertiary industry either wholly owned by themselves or as joint ventures with other units. They can extend their products and services to cover different areas, departments, and sectors.

Under the premise of fulfilling their mandatory allocated plans and achieving rational turnover of reserves, the enterprises can sell on the market at negotiated prices their surplus products and stockpiled materials that exceed their requirements. The enterprises are allowed to set their own prices, within the maximum state price limits, for industrial production materials that they sell themselves.

The increased profit resulting from technological transformations that the enterprises have carried out by using their retained profits is exempt from regulatory tax for 2 years.

Under the premise of ensuring the fulfillment of the plan for debt repayment, new enterprises can use 20 percent of their debt sum for workers' welfare and bonuses during the repayment period. A further 10 percent can be used as welfare funds when debt is repaid ahead of schedule.

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## QINGHAI'S AID FOR POOR AREAS REPORTED

Beijing RENMIN RIBAO in Chinese 13 Dec 85 p 1

[Text] According to a report by the QINGHAI RIBAO: the Qinghai provincial party committee and provincial people's government recently decided that organs directly under the jurisdiction of the province should carry out the method of contracting out whole districts to help the poor in the poor areas. This was a measure to implement the guiding ideology put forward by the central authorities on how leading organs should serve the masses and serve the basic level and to strengthen and improve our countryside work in order to speed up our pace of controlling poverty and achieving prosperity.

Qinghai Province's work on designating experimental spots to contract out whole districts and help the poor areas has already begun in November. The 68 departments, commissions, divisions and bureaus under the direct jurisdiction of the province (including 2nd-level bureaus) have together contracted out 53 poor areas and 2 poor counties. There are also other poor districts which the various autonomous prefectures, prefectures, cities and counties are taking over to distribute these contracting-out tasks among themselves.

Up to 5 December, personnel transferred from the provincial CPPCC and 15 other units such as the provincial public security division, the heavy industries division, the agriculture and forestry division, the public health division, the statistics bureau and the planning commission have all under the leadership of cadres at the level of the departmental office and above arrived at the basic level to begin their work of investigation and study in the poor areas. The rest 53 departments, commissions, divisions and bureaus have also mostly made their various preparations to make it possible for them to go down there in a matter of days.

The main tasks of the cadres assigned to contract out whole districts and help the poor this time are: to propagate and implement the party's principles and policies; to help the poor districts do a good job in carrying out investigation and study, learn clearly about the local social and economic conditions and strong points in their natural resources, analyze the causes of their poverty, explore ways to control such poverty and achieve prosperity, and study and formulate plans for controlling such poverty and achieving prosperity as well as implementation plans for the fiscal year; to help the poor districts readjust the structure of their industries and develop their commodity economy according to conditions of the local natural economy; to implement the policies and measures of the provincial party committee and provincial government on changing the outlook of the poor areas; to do a highly effective job in ideological and political work among the cadres and masses at the basic level, and handle as much as possible certain matters for the masses of the poor areas. They must strive hard to basically solve the clothing and food supply problems of the poor areas within 2 to 3 years, and within 5 years or so make it possible for the income of the masses of these poor areas to catch up with the level of the average income of the province's farming and cattle-raising people.

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ECONOMIC MANAGEMENT

## HEBEI'S XING CHONGZHI PRAISES MODEL TECHNICIAN

SK150720 Shijiazhoung HEBEI RIBAO in Chinese 21 May 86 pp 1, 2

[Speech by Xing Chongzhi at the commendation meeting in honor of Comrade Zheng Zongwu: "Wage Death-Defying Struggles and Keep Forging Ahead in Order to Score the First-Grade Achievement" — date not given]

[Text] Comrades:

We have just heard a touching and encouraging report given by Comrade Zheng Zongwu, a Communist Party member and assistant of the Fenghuangling township forestry bureau in Pingquan County. His 20 years of frustrating experiences and his touching deeds of only seeking contributions, working hard, and of making the people happy provide us with a lively and profound lesson on ideals and purpose. According to the contributions scored by Comrade Zheng Zongwu to the party and the people and his model deeds, the provincial CPC Committee and the provincial People's Government have conferred on him the glorious title of outstanding Communist Party member, issued a circular to cite him for his meritorious deeds, and have given him a one-grade wage promotion. This fully indicates that the party and people have shown great concern for scientific and technological personnel who have made contributions to the program of building the four modernizations and have cherished and respected them. This also represents the honor that deserves to be granted to Comrade Zheng Zongwu. Here, on behalf of the provincial CPC Committee and the provincial People's Government, I would like to extend warm congratulations to Comrade Zheng Zongwu and hope that the broad masses of party members, cadres, and scientific and technological personnel throughout the province will learn from Comrade Zheng Zongwu, and will become true Communist Party members and revolutionary cadres cherished by the masses.

Comrade Zheng Zongwu is an ordinary scientific and technological personnel engaged in ordinary work. However, he has scored unusual achievements in his ordinary post and won the trust, love, and esteem of the masses. This has provided a question for us, which should be earnestly pondered, which is what attitude people, whether they are party members, cadres, or scientific and technological personnel, should adopt toward their work, their reputation and interest, their difficulties, and toward the people's interest. This represents a quite serious question with which each Communist Party member and cadre will confront, and to which each member and cadre will give an answer. In this regard, Comrade Zheng Zongwu has set an example for us with his concrete deeds.

Our comrades have their own work and undertakings. The fact whether they have truly and ardently cherished their professional work, whether they have integrated their practical activities closely with the ideals of communism, and whether they have had a strong dedication and a sense of responsibility represents an important indicator of whether they have high consciousness in ideology and politics and an inner factor and whether they have attempted to perform their duties satisfactorily and to do a good job in their professinal work. Comrade Zheng Zongwu has engaged in forestry undertakings and ardently cherished his own work, even to the extent of being crazy about his job. In order to make a success in his work, he engaged in study and research with great eagerness; integrated his work with the task of helping the masses combat poverty, become wealthy, and remove the poor outlook of mountainous areas; and closely coordinated his work with the realization of communist ideals. He made unremitting efforts at all times to fulfill his work and undertakings. During the days in which he lost his job because of a framed-up charge, he also thought day and night of the waste mountains and hills in his hometown and bore in mind constantly the elders and fellow villagers of the poor areas.

After the 3d plenary Session of the 11th CPC Central Committee, he was rehabilitated by the Pingquan County CPC Committee, thus giving him an opportunity to display his ambitions. He resolutely organized and led the masses of his hometown in cultivating saplings, planting trees and developing the uncultivated hills. The comrades might think this over. Would Comrade Zheng Zongwe have done this if he did not have strong dedication to his work, a high sense of responsibility, and a firm conviction towards the party? Therefore, a person cannot do without ideals and faith because without them he will not have a soul, direction, or a driving force. In learning from Comrade Zheng Zongwe, we should emulate his spirit of being master of the state and deeply cherishing his work, his spirit of studying painstakingly, his party spirit of boundless devotion to the cause of the party and the people, and his dedication to performing his duty and creating first-grade achievements in his various work posts through realistic work.

As far as a revolutionary is concerned, whether he pursues personal fame, benefits, and positions or unconditionally serves the interests of the party and the people are a line of demarcation and a touchstone for distinguishing the two world outlooks. Pursuing fame and benefits and haggling over one's personal gains and losses are the manifestations of bourgeois decadent ideology, which is absolutely different from the ideology and aspirations of seeking benefits for the masses and the people on the part of Communist Party members. What is deserving of praise for Comrade Zheng Zongwu is that he has faithfully kept in mind the purpose of the party at all times and under any circumstances. He attached prime importance to the interests of the party and the people and never haggled over personal gains and losses. After the party rehabilitated him, he had every reason to demand something from the organization; however he did not do so. What was in his mind was that the losses of the party were greater than his, and that after returning to the embrace of his mother, he should repay his mother's concern with his actual deeds, and that what should he do to dedicate his wisdom and talents to improving the poverty in his hometown. Comrade Zheng Zongwu is an outstanding technical cadre of great expertise.

After his rehabilitation he served as a forestry assistant. He never haggled over his positions, whether high or low. He held that "serving as an assistant is all right provided that he can help his fellow villagers become rich." Afterward, he was dismissed from posts in a reorganization drive. At that time, if he were to engage in making himself prosperous with his specialized technology, the benefits for himself and his family would be imaginable. However, he declined the offer of better salary time and again, and unswervingly continued to help the people in his village embark on the road of prosperity.

Comrade Zheng Zongwu was happy from the bottom of his heart when he saw the people became prosperous and the changes in his hometown. He worked more energetically. In emulating Comrade Zheng Zongwu, we should emulate his workstyle of not seeking fame and benefits, and of working selflessly, his lofty character of sacrifying his personal interests for the people, his communist values of dedication and not asking for special privileges, and his wholehearted devotion to public duty. Through our strenuous efforts, the party's fine workstyle will be restored, and developed.

In the course of the four modernizations drive, all fronts will encounter some setbacks and difficulties. Whether a Communist Party member has retreated or adopted a dispirited and hopeless attitude in the face of difficulties and setbacks or whether he has advanced despite difficulties or has challenged difficulties in a death-defying and progressive spirit are the rigid tests for him in order to judge his party spirit and awareness, whether high or low. The past 20 years Comrade Zheng Zongwu has suffered from persecution politically, thus greatly affecting the livelihood of his family. It is hard for an ordinary person to bear such sufferings. Comrade Zheng Zongwu has endured them with the selfless spirit of a revolutionary. His indomitable will come from his strong party spirit and the revolutionary optimistic spirit of A Communist Party member. Today, in our journey towards reform and the four modernizations, we will also come across difficulties and setbacks of one kind or another, and some unhappy events for ourselves or our families. However, so long as we keep on fighting in spite of all setbacks, reinforce our confidence, have lofty ideals, and have the spirit of being ready to give our lives to the people, just like Comrade Zheng Zongwu did, we will certainly be able to conquer all difficulties and obstructions, and constantly push forward the causes of the party and the people.

Wholeheartedly serving the people is the sole purpose of our party. The interests of the people are the interests of the party. The Communist Party should work for the interests of the people, should represent the people in everything, and should do everything for the people. Offering or asking for something, and serving as the people's public servant or acting like an overlord when approaching the interests of the people will be a fundamental criterion for distinguishing a proletarian political party from a bourgeois political party. Comrade Zheng Zongwu has regarded himself as the son of the people and as the public servant of the masses, and has always borne in mind the people's interests. To help the masses become prosperous and to change the poverty of the mountainous areas, he has gone to the places where he is needed and has engaged in what the masses need. He has also been good at applying party policies to teach and mobilize the masses. This is a noble moral character all Communist Party members, revolutionary cadres, and scientific and technological workers should have.

At present many localities, in particular some people in the highland and border mountainous areas, have not yet extricated themselves from poverty. Helping the people in these localities extricate themselves from poverty and become prosperous is an unshirkable duty facing the vast number of party members, cadres, and scientific and technological personnel. During his inspection tour of our province's Taihang Shan area, Comrade Hu Yaobang pointed out: In supporting poverty-stricken households, we should mainly depend on the further expansion of production channels, and should send them technologies, which are most important, information, and funds. The vast number of party members, cadres, scientific and technological workers, in particular the scientific and technological worker who directly serve agriculture, forestry, animal husbandry, sideline production, and fishery should all take Comrade Zheng Zongwu as an example, and should consciously go to the poverty-stricken areas to explain policies for the peasants, to send technologies to the peasants, and to disseminate scientific and technological knowledge among the peasants. They should combine the dissemination of policies with training on technologies, should disseminate experiences on becoming prosperous, should help the masses in making plans, and should dedicate their intelligence and wisdom to the people so as to enable still more of the masses to become prosperous.

Comrade Zheng Zongwu is an outstanding intellectual. His rough experiences have also set forth an extremely serious issue to leaders at all levels, that is, how to treat knowledge and talented persons. It should be noted that we have already scored great achievements in this regard after the work of setting wrong things right and the implementation of policies on use of intellectuals. However, the cases of not respecting, not cherishing, and, worse still, excluding, oppressing, and striking at talented people have not been stamped out in our province. Some places have not implemented the policies on use of intellectuals thus far. All localities, departments, and units should conscientiously investigate themselves on whether or not there are the cases of stifling and oppressing real talent. It is hoped that leaders at all levels will conscientiously grasp the implementation of the party's policy on intellectuals with a high sense of responsibility and urgency and in line with the spirit of being highly responsible for the party and the people. They should also sincerely and actually cherish and cultivate real talents, conscientiously look for real talents, reasonably use the talents, pay high attention to the livelihood of talents, create a fine work environment for talents, resolutely struggle against the phenomenon of oppressing and striking at talented persons, and make great efforts to mobilize the initiative of the vast number of intellectuals.

Through learning from Comrade Zheng Zongwu, the people throughout the province, from top to bottom, should unite as one, and work hard for the fundamental improvement in the province's party style and social conduct, for the realization of the Seventh 5-Year Plan, and for the comprehensive and rapid development of various items of our work!

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## UPGRADING OF ANSHAN STEEL WORKS TO CONTINUE

OW171420 Beijing XINHUA in English 1400 GMT 17 Jun 86

[Text] Shenyang, June 17 (XINHUA)--The chief engineer of China's biggest steel producing plant has promised that the Anshan Iron and Steel Company will retain its leading position through a program of overall technological transformation to last until 1990.

Long Chunman told XINHUA that the company will produce 8 million tons of steel by 1990--14 percent of the planned national total output. In the same period, steel varieties, especially the high-grade ones which are in short supply, will be increased markedly and half of the rolled steel products will reach international standards.

The overall technological transformation in the 1986-90 period will add a production capacity of 1 million tons of steel, he said.

The biggest steel producer among the 10 major metallurgical enterprises in China produced 7 million tons of steel last year, when China's total steel output came to 46.7 million tons.

Long, 52, said that the overall technological transformation is an important step in the development of China's metallurgical industry.

Inspecting the 70-year-old enterprise in 1984, Premier Zhao Ziyang encouraged officials and workers of the Anshan Iron and Steel Company to reform the management and accelerate technological transformation.

The state invested 884 million yuan in 133 projects for technical transformation in the company from 1981 to 1985.

The company, still confronted with out-dated equipment, backward technology and irrational energy composition, plans to streamline all major production processes, including computer control and management.

It has imported 20 advanced-technology facilities from Federal Germany, Japan, the United States and a dozen other countries, and the major production facilities will soon reach the advanced international level, he said.

The company has sent 40 technicians abroad to study the imported technology and computer-aided management.

Long said that all plants and workshops under the company are training workers, while 3,700 graduates from college and technical schools are entering the company each year.

Now, 42,000 engineers and workers are undertaking the technological transformation from the mining and sintering to the melting and rolling processes, while the enterprise does not reduce its production.

The company is enabled to completely supply itself with iron ores by the newly-built four mines.

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CSO: 4020/347

INDUSTRY

## OFFICIAL DISCUSSES REFRIGERATOR PRODUCTION

HK100821 Beijing CHINA DAILY in English 10 Jun 86 p 2

[By Liu Hong]

[Text] The refrigerator industry is enjoying a cool success story as refrigerators rise to the top of family shopping lists. This year the country plans to manufacture 2 million fridges, a 43 percent rise over 1985, according to a Ministry of Light Industry official.

In the first quarter of this year, some 452,000 refrigerators were made and marketed, 22.6 percent of the planned annual output, said Yu Jianping, an official of the Ministry's Household Electric Appliances Bureau.

A survey showed that for every 100 families with average incomes or above, there were 6.9 refrigerators.

The total output last year was 1.4 million, seven times the 1983 level. In addition, a large number of foreign fridges have been imported to meet the growing consumer demand. However, there is still a shortage and department stores have to scramble for supplies, Yu said.

China now has 42 refrigerator factories. Many of them are dependent on imported components, including the Guangzhou and Suzhou factories that produce the country's most popular brands--Wanbao and Xiangxuehai. Some are merely assembly shops for foreign products.

But Beijing Refrigerator Factory is an exception. It manufactures every part of its Snowflake refrigerators. Founded in 1952, it is the oldest fridge factory in China. Its products once accounted for 80 percent of fridges sold around the country. Last year it turned out 160,000 fridges, a four-fold increase over 1980.

However, in the past 2 years, the factory has faced fierce competition and its share of the market has shrunk to only 10 percent. But its strategy of investing heavily in advanced foreign technology rather than importing components to upgrade its products seems to be helping it recover its lost market.

Since the state has cut back foreign exchange spending on consumer imports this year, many fridge factories that rely on foreign parts are experiencing material shortages. Economic information has reported that some factories in Shanghai could not fulfill their production quotas because they could not get enough imported parts. The journal predicted that the shortage of fridges in Shanghai would be acute this summer.

The refrigerator industry is a fledgling industry in China though it has passed its prime in the West," [no opening quotes, as published] said Zheng Wangchan, director of Beijing refrigerator factory. "We cannot develop our own industry if we are only content with assembling foreign-made components."

His factory in the past 3 years imported technology and equipment to build production lines for five key refrigerator components: compressors, thermostats, radiators, evaporators and filters.

To increase competitiveness, the factory is offering a double-door model this year and a triple-door model is expected to pass an appraisal this month.

Yu Jianping, of the Ministry of Light Industry, estimated the country's annual fridge production would reach 13 million by 1990 when all imported production lines were in operation.

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CSO: 4020/347

## INDUSTRY

### INDUSTRIES TACKLE TECHNICIAN SHORTAGES

HK120740 Beijing CHINA DAILY in English 12 Jun 86 p 1

[By staff reporter Zhu Ling]

[Text] Two major industries are tackling the nationwide shortage of skilled technicians by investing a combined 1 billion yuan ($312.5 million) in training over the next 5 years.

The petroleum industry plans to train an extra 100,000 technicians and administrative personnel, a meeting at the Daqing Oilfield was told this week, raising the proportion of technical personnel from 14 percent to 20 percent.

And the machine-building industry is aiming to expand its force of technicians from the current 6 percent to 10 percent of the total staff.

The Petroleum Industry Ministry plans to allocate 100 million yuan annually during the next 5 years to improve its 1,300 training establishments, in addition to funds to be used by oilfields for education.

The machine-building industry's programme involves setting up new training centres and management training bases, increasing the teaching staff, inviting foreign experts to lecture and updating existing schools and universities under the Ministry of Machine-Building Industry.

An official of the Ministry of Machine-Building Industry told CHINA DAILY yesterday that an investment of 550 million yuan is expected to be spent on the programme.

At the moment, there is a shortage of senior technical staff with advanced skills in the industry, which makes up 25 percent of the country's total industry in terms of assets, workforce, output value and profits.

It is estimated that about 77 percent of the present senior staff will have reached retirement age by 1990, he said. The situation is even worse with managerial personnel, whose number is seriously short of the industry's needs.

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INDUSTRY

## BRIEFS

LIAONING INDUSTRIAL MODERNIZATION--Shenyang, June 13 (XINHUA)--The governments and Liaoning authorities will spend 18.7 billion yuan on modernizing the province's factories over the next 5 years, a provincial official said here today. This is 64 percent more than the sum spent on industrial renovation in Liaoning over the past 5 years. The modernization program will concentrate on enterprises connected with energy production, raw materials, machine-building, electronics and textiles. The official added that Liaoning also planned to raise U.S. $2.2 billion (7.04 billion yuan) over the next 5 years to modernize its industry. [Text] [Beijing XINHUA in English 0649 GMT 13 Jun 86 OW] /8918

INSPECTION ON INDUSTRIAL SAFETY--Beijing, May 22 (XINHUA)--Industrial injuries, traffic accidents and the incidents of occupational diseases are too many in China, according to a national inspection carried out this year. The inspection also indicated the death rate in industrial accidents was high during the first quarter of this year. The State Commission for Industrial Safety organized six teams for inspection in 18 provinces, municipalities and autonomous regions. Zhang Jinfu, director of the National Commission and also a state councillor, called on the enterprises throughout the country to enhance workplace safety. He also set forth the idea of using laws, regulations and education to help the workers strengthen their sense of safety. All the departments concerned must fulfill their duty earnestly and establish a responsibility system immediately, he said. The inspectors attributed the accidents to lack of effective measures and the violation of production and traffic regulations. The inspectors also found some advanced enterprises, including the Shanghai Nanyang Electrical Machinery Plant which had had no accidental deaths for 7 years. A chemical factory in Shandong Province had seen no sufferers of occupational diseases for 13 years. The commission urged all enterprises to learn from advanced experience and make their own progress. [Text] [Beijing XINHUA in English 1515 GMT 22 May 86 OW] /8918

EXPORT PRODUCTION SUPPORT--Beijing, May 26 (XINHUA)--The Ministry of Light Industry will give extra support this year to 16 state-owned enterprises in order to boost export production, the ECONOMIC DAILY reported today. Selection of the enterprises means they will be eligible for special technical and financial aid, the paper said. The 16 enterprises are located in the Shanghai and Tianjin areas as well as in the provinces of Guangdong, Jiangxi and Shandong. Their products include bicycles, sewing machines, clocks, watches, domestic electrical appliances and tableware. Altogether, last year the 16 exported goods worth U.S. $118 million. [Text] [Beijing XINHUA in English 0534 GMT 26 May 86 OW] /8918

STEEL OUTPUT GROWTH--Steel output reached 21.2 million tons in the first 5 months of this year, 10.5 percent more than in the same period of last year, according to the Ministry of Metallurgical Industry. The increase was higher than for the country's industry as a whole, a ministry official said. During the period, 16.8 million tons of rolled steel, which is in short supply, was produced--an increase of 9.6 percent. Almost 20 million tons of pig iron was turned out; 13.8 percent more than in the same period of last year. The official said that Baoshan Steelworks in Shanghai, was responsible for the increase as it went into production last September. It has a daily output of 6,000 tons of steel and 7,000 tons of pig iron. China produced 46.7 million tons of steel last year. The goal for this year is 49 million tons and 44.8 million tons of iron. Officials of the metallurgical industry said they were optimistic the goal could be met. [Text] [Beijing CHINA DAILY in English 13 Jun 86 p 2 HK] /8918

LIAONING BRAIN TRUSTS--Shenyang, June 17 (XINHUA)--The Metallurgical Industry Ministry planned to import a pipeline for transporting limestone for the Benxi Iron and Steel Company until the company's brain trust vetoed the suggestion as uneconomical. As a result, the company avoided a loss of one million yuan, said local officials. At present, 644 big and medium-sized enterprises in Liaoning have established such panels of advisors--scientific and technological experts totaling some 150,000. The Dalian Shipyard used to entrust a Japanese enterprise with working out optimum calculating methods and programs, but with the help of its brain trust the shipyard developed a unique calculating method which has been recognized by Lloyd's of London. In recent years, the advisory panels in Liaoning, one of China's most advanced heavy industry bases, have appraised 1,500 projects, solved 4,700 technological problems and offered 10,000 consultancy services, which yielded economic returns worth 2,080 million yuan. [Text] [Beijing XINHUA in English 1457 GMT 17 Jun 86 OW] /8918

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## SPECIAL ECONOMIC ZONES

### PRICE REFORM IN SPECIAL ECONOMIC ZONES

HK190858 Beijing JINGJI YANJIU in Chinese No 4, 20 Apr 86 pp 55-59

[Article by Chen Zhaobin [7715 5128 2430] of the Jinan University Economic Research Center: "The Market Model and Price Reform in Special Economic Zones" -- Written in January 1986]

[Text] The economic conditions of the special economic zones require that the mission of the markets of the special economic zones be different from the markets in the mainland. Enterprises of "three different types of capital" (joint venture, cooperation, and sole capital) take precedence in the economy of the special economic zones, and commodity production and circulation in the special economic zones are mainly regulated by the market mechanism. Exports account for the major proportion of products produced in the special economic zones, a considerable amount of the means of production and means of living needed in the special economic zones must be imported. Therefore, the market must sensitively reflect the supply and demand situation of the international market and the prices. Prices in the special economic zones must also have a high degree of flexibility and adaptability in the course of playing their role in market regulation and under the circumstance of being directly involved in competition with the international market. All this proves that the market model in the special economic zones is very much different from the general markets in the mainland, the role of prices is also different in the special economic zones from that in the mainland, and that there must be special demands in the price reform. What are, in fact, the characteristics of the markets in the special economic zones and what model has been formed? How should the price reform be carried out in the special economic zones in order to suit the demands for building these zones? This is an important theoretical question which merits profound study.

### 1. The Characteristics and Contradictions of Market and Price Movements in the Shenzhen Special Economic Zone

Since the establishment of the special economic zones, great changes have occurred in the market of the Shenzhan special economic zone.

1. The market has changed from a closed model to one which extends outside.

Although Shenzhen borders Hong Kong, it did not have much economic r relations with Hong Kong in the past, the standard of economic development was low and market circulation was in a closed and stagnant state. Since the establishment of the special economic zones, economic and trade relations with Hong Kong have been greatly developed, the volume of export trade has been increased by 27 times, import trade has also been greatly developed and even exceeded the export trade. This has generally reflected that Shenzhen has been preliminarily transformed into an important foreign trade center and a "fore-window" to communicate with Hong Kong, possessing the characteristics of extending outside. This only indicates that Shenzhen has increased its capacity in extending outward and does not mean that the market has turned into an "extensive" one. We also need to realize that there are big deficits between import and export trade in the initial stage of transition which need to be rectified in the future. In view of the trend of economic development of the special economic zones, this kind of deficit will be gradually reduced in the future; besides imports which have been appropriately controlled, the export volume is increasing steadily. Besides, the development of tourism, catering trade and services trade and their capacity of making more foreign exchange profits also indicate that the market of the special economic zones possesses the characteristic of extending outward. They all reflect a considerable degree of extensiveness in the course of their business activities and have become an important component which reflects the situation of the market of the special economic zones.

2. The acute increase of the capacity of the market speeds up the fast devlopment of commerce, tourism, catering trade, finance and the services trade.

The original capacity of Shenzhen market was very small; the social commodity retail volume was only 120 million yuan in 1978. However, this reached 230 million yuan in 1985. The acute increase of the market capacity has enabled the emergence of a new batch of modern shopping arcades, restaurants, hotels and various sizes of shops in Shenzhen. This has also speeded up the extension of the marketing and sales channels and the circulation reforms, enabling Shenzhen to gradually develop from a rural market to a more developed shopping center. This is another great change in the features of the market. This change also suits the demand for improving the investment environment of the special economic zones.

3. The role of market mechanism has been expanded, free prices have gradually occupied a dominant position.

At present, except for the charges of railway, aviation, sea transportation, post and telecommunications, water, electricity, house rentals, medical treatment, and public transportation within Shenzhen which are to be made in accordance with state regulations, and floating prices which are allowed in accordance with the extent approved by the state for iron and steel materials, cement, grain, oil, pork, gas, coal, petroleum, color television, all other products are allowed to adopt the form of free prices, whether they are prices fixed by the enterprises themselves or trade fair prices. The mechanism of market prices is now playing a more extensive role in regulation than in the past. The flexibility of supply and demand and the products' competitiveness have been greatly improved.

The above great changes mark the development of the building of the special economic zones. However, the changes in the market of the special economic zones are still in a transitional stage, and there are still prominent contradictions in the areas of market and price.

1. Economic and trade activists which extend outside face many difficulties due to certain restrictions.

As far as imports and exports are concerned, Shenzhen enjoys the superiority superiority of neighboring Hong Kong, and it hets better economic results than the mainland especially in the export of fresh and living products. However, it faces certain inappropriate restrictions of export quotas. The vegetable export quota in the latter half of 1985 was 120 tons per day, about 30 tons less than the daily quota of May and June. In accordance with this quota, the total annual export would only be around 50,000 tons, accounting for only 28 percent of the output. The quota for pond-bred fish was only 12 tons per day, and each mu of fish pond in Shenzhen could only be allocated a very small percentage. At the same time, products which are given permits are consistently increasing. All this weakens, to a certain extent, the capacity of the special economic zones in extending outward.

2. Tightness of money in the market, weakening of foreign purchasing power, relapsed commercial business, tourism, catering trade and the services trade and overstocking of products which have been blindly procured in the past have cast a dim shadow on the market.

Between the last quarter of 1984 and early 1985, various banks competed in giving loans and many enterprises also competed in promoting projects. This lead to an "overheated" market and inflation of certain prices. Credits were more tightly controlled afterwards so that money was tight in the market, the loan difference of Shenzhen was increased by nearly 150 percent between the end of 1984 to early 1985. A large amount of capital was stuck in capital investment, some enterprises were unable to pay for the construction projects and certain capital construction projects were unable to be continued due to lack of capital.

Weakening of the foreign purchasing power was also obvious since the latter half of 1985. The number of tourists to Shenzhen has greatly dropped, the rate of occupied rooms was below 50 percent from January to August 1985. The business of the shopping arcades and restaurants has also dropped. The number of empty passenger seats of various transportation vehicles in Shenzhen became greater due to a reduction in tourists. This is contradictary to the "overheated" situation at the earlier stage.

Another important question in the market activities is that there is overstocking of products which have been blindly procured in the past, this has seriously affected the circulation of capital and caused great difficulties to the enterprises concerned. For instance, about 3 million electronic calculators and 10 million pens have been accumulated. Several tons of steel materials have also been accumulated due to difficulties in raising funds for capital construction.

There are several factors accounting for the drop of tourists and the weakening of the purchasing power. We should pay attention to the following:

(1) The market in the special economic zones mainly sells foreign goodss which are not attractive at all to the tourists; and as far as the toruists from the mainland are concerned, most of the prices of the imported goods are far too expensive which also become unattractive to them. (2) the charges in the restaurants and hotels in the special economic zones are also too high, in some cases, the prices are even higher than those in Hong Kong, and this certainly hinders business. (3) since our country has opened up 15 coastal cities and Hainan Island and 5 open economic zones in the Pearl River delta, the area for importing foreign capital and technology has been extended. Thus, the number of people coming to Shenzhen for business consultations has dropped accordingly.

3. Counter-movement of the price differences, and the co-existence of the three currencies and three prices affect the regulatory role of the prices.

Shenzhen is the meeting point of the Hong Kong market and the mainland market and is where price differences between these two areas are found. In the past, due to the fact that prices of industrial products were cheaper in Shenzhen than in the mainland, many businessmen were attracted to procure them in Shenzhen. However, a new situation has appeared recently: first there was a reverse trend of the prices of the industrial products which had gone up due to multiple speculation, and on the other hand, due to sufficient purchase of such items inside the mainland and expanded local supply, the prices have dropped. Thus, the prices of certain products in Shenzhen became even higher than inside the mainland, and this certainly affected the normal circulation of commodities. Second, due to blind import of products at the preceding stage, foreign currencies were badly demanded at very high prices, and this caused an acute increase in the free exchange rate of the foreign currencies, irrationally increasing the production cost of imports and increasing the marketing prices. This is an important factor accounting for the weakening of the purchasing power in Shenzhen. Third, charges in the hotels, restaurants and for other services are too high and even exceed the standard in Hong Kong. Such a standard also reflects the counter-regulation and cause a relapse in exchange and business activities in the market. We must pay sufficient attention to this.

The co-existence of three currencies and three prices in Shenzhen has reamined a problem since the establishment of the special economic zones. The present situation is that Renminbi is gaining less and less popularity which indicates that the price reform based on Renminbi will face great constraints, and there is a big distance in achieving the goal of the price reform and establishing a unified price regulation system.

The general growth and decline of the three currencies in the circulation structure over the last years is as follows:

| Year | Renminbi | Foreign Exchange Coupon | Hong Kong Dollar |
|---|---|---|---|
| 1981 | 75 percent | 20 percent | 5 percent |
| 1982 | 65 percent | 22 percent | 13 percent |
| 1983 | 53 percent | 16 percent | 31 percent |
| 1984 | 46 percent | 9 percent | 45 percent |

We can see from the table that the Hong Kong dollar has become more and more popular and that the popularity of Renminbi is decreasing. This trend is more obvious if calculated in accordance with the free exchange rate.

The co-existence of three currencies is an abnormal phenomenon which is inevitable for a certain period in the special economic zones and which cannot be changed by means of administrative measures. However, we must see that this abnormal trend increases price confusion and thus, we must strive to eliminate it by means of financial and monetary policies. At present, certain shops adopt the method of offering prices in Renminbi for products which are presumably to be sold in Hong Kong dollars, but the standard of calculation varies from shop to shop and in most cases, it is much higher than the exchange rate. This reflects the urgency in reforming the currency.

More flexibility has been allowed in the recent years with regard to the portion of prices calculated in Renminbi. However, this reform is far from being consolidated and there is certain confusion: the standard of price varies tremendously, the social retail price index increased by 2 digits in 1985 when compared to 1984 and the fair trade prices were also increased by over 10 percent. There are also phenomena of indiscriminate charges and price increases as far as certain necessities for the people's daily living are concerned.

The above questions greatly affect the further development of the special economic zones, affect the capacity of the special economic zones in making more foreign exchange profits and in completing the change of "centering on extending outside" in the marketing and the sale structure of the products produced by the special economic zones, and affect the efforts of these areas in "absorbing foreign materials and linking the mainland." We must basically specify the market model of the special economic zones, actively create conditions and speed up reforms in order to solve these problems.

## II. The Market Model of the Special Economiz Zones and The Conditions For Achieving The Changes

The market of the special economic zones should achieve three changes in accordance with the economic development of the special economic zones, that is to change from a closed market to an open market which "centers on extending outside," to change from a monopolized market to a highly competitive market; to change from the form of product economy to a modern market which possesses a perfect market system. This means that the target market model of the special economic zone is an open market which "centers on extending outside" and which possesses a modern market system to launch competition.

The open market which "centers on extending outside" demanded there should be one which opens both to the mainland and outside but focuses on extending outside. This implies that the market model in the special economic zone is not only "extending outward," but that it also extends toward the mainland. The Shenzhen special economic zone undertakes the important task of giving play to "two spheres," "extending outside" does not eliminate "extending inward," and they should supplement each other. The market of the special economic zone should be based on the mainland market, and by means of "linking the mainland," carrying out trade with the mainland and exchanging technological information in order to strengthen its radiative role. Even the adoption of the management line (the line separating the special economic zones from the non-special economic zones), does not imply an end to such a relationship. The establishment of an open market which "centers on extending outside" in the special economic zone suits reality to a considerable extent. However, this change is not completed yet. For instance, local sale and the sale of products on the mainland still occupy a large proportion of the products of the special economic zones, and there are still great constraints and restrictions in the foreign economic and trade activities and the foreign commercial channels are not clear yet.

A competitive market is a prerequisite for launching the role of market regulation. Competition has appeared to a certain extent in the Shenzhen special economic zone; some shops, hotels and restaurants have started competition both in the management policy and the prices. The open tender for the construction business is a kind of competition.

However, the high charges and high prices of products are mostly related with monopoly and this reflects inadequate competition.

The market model of the special economic zone must also incorporate the demand for a modern market system. The market system in Shenzhen has not been completely formed yet. In order to effectively expand foreign economic relations in furture and maintain ties with the highly developed market in Hong Kong, we must build up markets for all trades such as the commodity trade market, the foreign exchange market, the insurance market, the technological market, communications market and shares market; only by building a perfect market system and enabling the market in the special economic zone to form a multi-aspect structure can we really cope with the needs of absorbing foreign capital and advanced foreign technology. There are still big distances to be covered in these areas.

In order to achieve the change of the above-mentioned market model, we must create a series of conditions: 1. we must insist and implement the open policy and the special policies for the special economic zones and in particular, implement Comrade Deng Xiaoping's guiding ideology of "not exercising control but allowing flexibility." Various departments msut give consideration to the special conditions of the special economic zones in the course of formulating regulations and must not do things in a rigid way. 2. in order to set up a dynamic modern market system, we must push forward the complete set of reforms in an overall way. We must, in particular, speed up the reform of the financial system. 3. we must form a buyer's market with a high degree of adaptability, and give normal play to the regulatroy role of the prices. 4. we must use the management line and the full opening of the market of the special economic zones. The future implementation of the special policies in the Shenzhen special economic zone demands that we make full use of the management line between the special economic zone and the area of 84 kilometers behind it in order to effectively prevent smuggling activities and maintain normal order inside and outside the special economic zone.

## III. The Price Reform in the Economic Zone and the Utilization of Price Mechanism

### The price system of the market in the special economic zone.

The price system of the special economic zones should be composed of two big categories. First, the controlled prices which included: (1) prices and charges for railway transportation, post and telecommunications and so on which are fixed and managed by the central and the provincial authorities, the prices and charges of public utilities inside the cities which are controlled by the government of the special economic zones; (2) floating prices which are adopted in accordance with the approved extent. Second, free prices which include: (1) prices fixed by the enterprises and the prices fixed subsequent to consultations of various enterprises; (2) the trade fair prices. Within these two categories of prices, most of the shops should adopt the free prices. As regards products which maintain close ties with the international market and products which are regularly imported and exported, it is necessary to build up competitive prices which will be more and more important in the price format of the special economic zones.

Under the circumstances of pushing forward the price reform, it is not necessary for all products to be subject to the open policy, it is very important that we adopt the method of controlled prices for certain products which are essential to the people's living. In economic life, many prices and charges are monopolized, generally speaking, water and electricity charges, public transportation in the urban areas, medical treatment and prices of materials allocated by the state should not be subject to the open policy. If we allow these prices and charges to compete, it might lead to wastage of materials or lowering of the service standard; but if there is rigid control, there will be no vitality and this will also lead to a low standard of management. As regards free prices of certain materials which are in short supply such as iron and steel materials, the extent of price increase is so big that it becomes a heavier burden in the capital for capital construction. Therefore, we must adopt appropriate control over the prices or charges of this type of product.

The objective of the price reform should on the one hand include graudally expanding the extent of floating prices and free prices, and on the other hand, should take the establishment of a perfect system of control as one of the important goals of reform.

We should not adopt the laissez-faire policy regarding the portion of free prices, we should exercise necessary guidance and interferrence in order to give play to its normal role.

The relationship of "flexibility" and "control" will always exist in the price reform. The general direction of price reform is to, basing on the basic policy of opening up to foreigners and enlivening the domestic market, inceasantly improve the flexibility of the prices, and under planned guidance and control, to give full play to the role of prices in speeding up production development and regulating market supply and demand. "Flexibility" and "control" of prices can never be separated nor can they be antagonistic against one another.

The Use of the Law of Value in the Market of the Special Economic Zones.

As far as this area is concerned, the formation of prices in the special economic zones and the price movement must implement three basic demands of the law of value.

(1) It is necessary to implement the principle of equal price exchange. This should be taken as the criterion to assess the state controlled prices, prices fixed by the enterprises, and other kinds of prices; irrational prices should also be rectified in accordance with this.

(2) It is necessary to adjust prices, regulate production and supply in accordance with the market demands. At present, products of unified prices cannot be flexibly adjusted in accordance with the market demand and have become "fixed prices." We also lack guidance in the assessment and utilization of the extent of the floating prices, and there is some confusion. We need to pay attention and solve the problems of how to make the prices fixed by the enterprises cope with the complciated changes of market demands, and how to appropriately adopt the price policies.

(3) Under the circumstances of opening up to the foreign countries, we will maintain closer ties with the international market, therefore, we must consider the demands of the law of value beyond the extent of our own country and in the course of implementation, set up a system of utilizing prices and methods Certainly, it does not mean that we must equalize the prices of products which are closely related with the international market with the international prices, but that we must pay attention to mastering and studying the supply and demand of the international market and the feedback of prices, and analyzing the change of labor productivity in order to ascertain and fix our production and price policies.

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## LABOR AND WAGES

### LABOR, PERSONNEL MINISTER INTERVIEWED ON WAGE REFORM

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[Interview with Labor and Personnel Minister Zhao Dongwan given "recently" to unidentified reporter--place not given]

[Text] This reporter recently interviewed Minister of Labor and Personnel Comrade Zhao Dongwan, who answered questions of interest to people on wage reform.

Question: How was the situation in the wage reform in 1985? What is your view on the wage reform this year?

Answer: It is also a matter of great concern to the people, particularly to the workers and staff members throughout the country. The state institutions and public organizations have carried out the reform of the wage system and the enterprises have also conducted some experiments in wage reform. On the whole, wage reform ran quite smoothly in 1985. It attained satisfactory results, but there were also some problems that needed to be studied and resolved. When conducting wage reform in 1986, we should conscientiously implement the principle on restructuring the economy laid down by the State Council; consolidate, assimilate, replenish, and improve the reform measures already taken; and discard the disadvantages, retain the advantages, and resolve the acute problems left from last year. Meanwhile, we should organize forces to study and work out the principle and plan for future wage reform in enterprises.

Question: Why is it necessary to reform the wage system in state institutions and public organizations?

Answer: The wage system for working personnel in state institutions and public organizations was worked out in the 1950's. The establishment and implementation of this wage system has played a positive role in ensuring the smooth progress of state administration and management and in stimulating the development of various undertakings. However, great changes have taken place in national economic development and other aspects of work in the last 3 decades. Due to various reasons, we have not been able to promptly make corresponding adjustments and reforms on the original system. In our practical work, we have also been subjected to "leftist" influence. The result is that quite serious egalitarian practice and some other irrational problems exist in wage distribution, that there is a widespread phenomenon of disconnection between official ranks and wage scales and between work and remuneration, and that the existence of numerous wage scales has led to numerous contradictions in the wage relations of personnel in different categories. The existence of these problems is unfavorable to the modernization drive and the improvemement of the cadre ranks.

Question: What is the new wage system for working personnel in state institutions and public organizations?

Answer: The new wage system for working personnel in state institution and public organizations is a structural wage system in which wages are related to specific work posts. It consists of four parts: 1) [word indistinct] wages, which are aimed at ensuring the basic livelihood of working personnel; 2) wages related to specific work posts, determined according to the posts, responsibilities, work, and professional or technical skills of working personnel and adjusted according to changes in work posts; 3) allowances related to length of service, increased annually in line with the individual's length of service and which, in the case of elementary and middle school teachers and hospital nurses, are supplemented by allowances related to length of teaching or nursing services; and 4) wages issued in the form of rewards. The structural wage system represents a big breakthrough over the original wage system. It is quite suited to the special features of state institutions and public organizations because it not only stresses wages related to specific work posts, thus linking the remuneration of working personnel with their posts, but also gives scope to the different functions of other wage components.

Question: What are the results of the reform of the wage system in state institutions and public organizations?

Answer: Because of the importance attached to it by leaders at all levels, the clearly-defined policy regulations, and the active support of the large numbers of working personnel, the current reform of the wage system has made quite enormous progress and has basically achieved the expected objective. This is chiefly manifested in the following three aspects: 1) We have abolished the graded wage system and replaced it with the structural wage system, in which wages are related to specific work posts, so that the wages of personnel in state institutions and public organizations can be brought into line with the new wage system and that the acute problems marked by disconnection between official ranks and wage scales can gradually be resolved. 2) Through this reform, working personnel at different levels and in different categories get better pay in varying degrees. They receive more pay increases this time than at any other wage adjustments since the founding of the PRC. This has improved, to some extent, the irrational situation whereby the original wage levels of personnel in state institutions and public organizations were on the low side. 3) We have simplified and unified the wage scales for personnel in state institutions and public organizations and initially resolved some contradictions that have not been resolved for many years, thus creating favorable conditions for gradually straightening out wage relations in the future.

Question: What are the outstanding problems in the current reform of the wage system in state institutions and public organizations?

Answer: The main problems in the current reform of the wage system are: 1) Due to the numerous wage scales and the wide wage differences in the original wage system, some irrational wage relations will emerge when the original wages of the personnel are incorporated to the nearest wage scales in the new system, with a small number of people inevitably receiving undue pay increases. 2) Although there is a difference between cadres holding the same posts in terms of service length, original wage grade, and work performance, their wages remain at the lowest wage scale related to their work posts, which is not quite rational. Moreover, there are some points in the new wage system that should be gradually perfected. The problems in the reform of the wage system should be gradually solved with the development of the national economy, in light of the state's financial resources, and in order of importance and urgency.

Question: What preparations will be made regarding the reform of the wage system in state institutions and public organizations this year?

Answer: In the reform of the wage system in state institutions and public organizations this year, we shall primarily assimilate and replenish the reform plans already worked out and appropriately resolve the acute problems left from the past. First, we shall institute, with leadership, by stages, by groups, and in a planned way, an employment system for professional technical posts, and fix the wages of professional technicians according to their posts. Second, we shall adjust the wage categories of some localities.. In light of the practical conditions and the state's financial resources, we shall only make partial adjustments on wage categories this year. As for the question of straightening out, in an all-round way, the wage relations among different localities, we should examine it in its entirety and gradually resolve it. Third, in light of the state's financial resources, we should appropriately resolve the acute problems left from the reform of the wage system last year. Concrete methods and measures are still under investigation and study. Moreover, as of 1 July this year, we shall have to issue the above-norm additional wages decided on in the wage reform last year and to increase, according to the stipulations, the allowances issued to personnel according to their length of service.

Question: Why is it also necessary to reform the enterprise wage system?

Answer: The enterprise wage system was also established in the 1950's. The acute problems that have existed for a long time are: 1) the serious practice of egalitarian distribution, with a disconnection between wages and the production development and economic performance of enterprises and between wages and the performance of individual workers; 2) the numerous and confused wage scales, which have not only brought inconveniences to wage management but also caused many contradictions among different trades and professions and among workers and staff members; and 3) the wage management structure, with its excessive centralism and rigid control, which has resulted in enterprises lacking the necessary decisionmaking power in wage distribution. These defects should be reformed because they have prevented enterprises from bringing into full play the initiative of the workers and staff members and failed to suit the needs of national economic development and of the reform of the economic structure.

Question: How shall we reform the enterprise wage system?

Answer: In line with the "Decision of the CPC Central Committee on Reform of the Economic Structure" and the guideline of the "Government Work Report" approved by the Third Session of the Sixth NPC, the focal point of the reform of the enterprise wage system is to gradually overcome the practice of egalitarian distribution characterized by "everybody eating from the same big pot," to correctly handle the relationships between the state and the enterprises and between the enterprises and the workers and staff members in term of distribution, and to conscientiously implement the principle of distribution according to work. In keeping with this requirement, we concentrated on doing the following things in 1985:

1. On the basis of the second phase of replacing the delivery of profit with payment of taxes, most enterprises continued to apply the method of fluctuating the reward funds according to the performances of the enterprises and, at the same time, appropriately raise the starting point for collecting reward taxes. In this way, enterprises with better economic results got more reward funds, while those with poor economic results got less. The material interests of the workers and staff members were thus linked, to a certain extent, with the performance of the enterprises.

2. A small number of enterprises tried out the method of linking the total payroll of the workers and staff members with the economic results of the enterprises. About 10 million workers and staff members throughout the country are applying this method on an experimental basis, accounting for some 15 percent of the total number of workers and staff members of state enterprises. There are three principal forms: 1) Most coal enterprises have tried a contract system under which the amount of wages is fixed according to coal output on a ton basis; 2) most construction enterprises have tried the contract system under which the amount of wages is fixed according to every 100 yuan worth of output value; and 3) over 1,000 large and medium-sized state enterprises have tried the method of linking the total payroll with the profits or taxes turned over to the state.

3. We simplified and unified the wage scales of workers and staff members and gave them a promotion. In 1985, we worked out reference wage scales for the workers and staff members of large and medium-sized state enterprises throughout the country and, on the basis of appropriately raising the level of wage scales, simplified and merged the 300-odd complicated wage scales into 5 wage scales for 3 industries in 1 locality, thus resolving the question which had not been solved for 20-odd years. With the implementation of the new wage scales and the promotion, the enterprise workers and staff members have received better pay.

4. The enterprises have a certain decisionmaking power in wage distribution. By fluctuating the reward funds according to performance, the enterprises can independently decide the methods of using the reward funds, such as issuing bonuses to workers and staff members, trying out floating wages or floating wage promotions, and instituting a job subsidy system in the internal departments of enterprises. In this way, we have initially changed the previous situation characterized by excessive and rigid control.

The work stated above represents only partial exploration in reforming the enterprise wage system. Because the enterprises wage system involves numerous economic relations and is much more complicated and difficult than the wage reform in state institutions and public organizations, it is impossible to finish it in a short time. The State Council has set up an enterprise wage system study team, which is organizing forces from various quarters and is planning to work out the principle and plan for the future reform of the enterprise wage system through investigations, studies, analyses, and expositions.

Question: What work should be done in reforming the enterprise wage system this year?

Answer: In 1986, in addition to devoting our efforts to studying and working out the principle and plan for the future reform of the enterprise wage system, we shall also make the following arrangements:

1. Regarding enterprises fluctuating the reward funds according to performance, it is necessary to further improve the methods of using the bonus in order to facilitate the implementation of the economic responsibility system. The reward fund is an important means of establishing and perfecting the economic responsibility system, arousing the initiative of the workers and staff members, and improving economic results. The distribution of bonuses should be integrated with the implementation of the economic responsibility system in order to demonstrate the principle of rewarding the diligent and good and punishing the lazy and bad. Bonuses should not be equally issued to all people. The State Council has decided that the starting point for collecting the enterprise bonus taxes this year will remain unchanged for 4 months and that the reward funds the enterprises used last year in the implementation of the new wage system may be listed as costs as of January this year on the basis of 7.5 yuan per capita a month (coming up to 90 yuan per capita a year, equivalent to 1 and 1/2 months of standard wages). This has created a favorable condition for the further implementation of the enterprise economic responsibility system. At the same time, the State Council has also decided that if policy-related money-losing enterprises or enterprises making meager profits have little reward funds, making it difficult for them to put the new wage [system into] practice, they can be given subsidies on a lump sum basis. Regarding the excessive differences in reward funds caused either by different potentials, profit bases, or fluctuating product or raw materials prices, the relevant departments also plan to take appropriate measures to regulate them gradually.

2. It is necessary to improve the experimental method of linking up the total payroll with the performance of the enterprises. The methods of improving the contract system under which the amount of wages is fixed according to every 100 yuan worth of product value for construction enterprises have been worked out and are being implemented. The methods of improving the contract system under which the amount of wages is fixed according to coal output on a ton basis and improving the linking of total payroll with the profits or taxes delivered to the state are being intensively studied. No matter what linking methods we adopt, we should stress the quality index above everything. Even if the other indexes have been achieved satisfactorily, the wages cannot be increased if the quality does not come up to the stipulated requirements.

3. It is necessary to improve the system of distribution in the internal departments of enterprises. The focual point of the work should be placed on such basic work as a fixed quota for a fixed number of workers, technical appraisal, and labor metrological statistics in coordination with the implementation of the economic responsibility system in order to provide a scientific and reliable basis for implementing the principle of distribution according to work.

When the original wage category 5 is raised to 6, appropriate adjustments will also be simultaneously made on enterprises in the locality that implement the original wage scales toward their workers and staff members.

Question: Why is it that the state allocated funds for the reform of the wage system in state institutions and public organizations last year, while the enterprises should carry out wage reform "at their own expense"?

Answer: That the enterprises carry out wage reform "at their own expense" is a common expression. To be precise, we should say that the enterprises use a portion of their reward funds to implement the new wage scales and to arrange the promotions of workers and staff members. The character of enterprises is different from that of state institutions and public institutions, and so their position in the distribution of national income is also different. As economic entities, enterprises are in the stage of distributing national income for the first time. Through production and business activities, the enterprises turn over to the state a portion of the created national income in the form of profits or taxes, which represent our state revenues. In accordance with the stipulations of state policy, the surplus will be retained by the enterprises and used to expand reproduction and to pay for the wages, bonuses, and welfare of workers and staff members. The state institutions and public organizations, however, are not economic entities and they are in the stage of redistributing national income. The state should allocate a portion of its revenue as administrative and operating expenses, which include the wages of the working personnel in state institutions and public organizations. For this reason, in carrying out wage reform and making wage adjustments, the enterprises should chiefly rely on improved economic performance and increased income following the development of production in order to provide for the necessary funds for the wage reform. This is advantageous to invigorating the enterprises and arousing the initiative of the workers and staff members. Judging from the practical conditions, the profits retained by the enterprises and their reward funds have increased fairly rapidly in the past few years. For example, the reward funds of the budgetary state-owned industrial enterprises increased by more than 400 percent in 1984 over 1980. The state has drawn up policies and enacted legislation to reserve these funds to enterprises with the aim of invigorating them. In this sense, the reward funds that the enterprises use to implement the new wage scales are actually the funds that the state reserves for the enterprises. Although there is a difference in the source of wage reform funds between the enterprises and the state institutions and public organization, this is only a difference of forms in distributing state funds.

Question: What questions should we pay attention to in reforming the wage system?

Answer: The reform of the wage system has a bearing on China's economic development and the immediate interests of every worker or staff member. In reforming the wage system, we should uphold correct irnciples and policies so that production and the standard of living will rise in a balanced way. The party and the government are very much concerned about the well-being of workers and staff members. Since the 3d Plenary Session of the 11th CPC Central Committee, they have gradually rectified the previous tendency of one-sidedly stressing production to the neglect of the people's livelihood. With the development of the national economy, they have made the utmost efforts to raise the wage and bonus levels of workers and staff members so that the living standards of the people have considerably improved in a fairly short time. In the future, with the in-depth development of various reforms and the growth of China's economic strength, the wage levels of workers and staff members and living standards of the people will still rise continuously. We should give better scope to the proper functions of wage distribution in order to improve the living standards of workers and staff members, to arouse their enthusiasm, and to stimulate the development of production. To this end, we should pay attention to the following problems in the reform of the wage system:

1. We should proceed from China's basic national conditions and adhere to the principle of gradually raising wage levels on the basis of increased production and productivity. Ours is a developing country and a big country with a population of more than 1 billion at that. The large population, the arduous task of creating new jobs, and the relatively backward economic development--these are the basic national conditions that we should take into consideration in reforming the wage system. Since the 3d Plenary Session of the 11th CPC Central Committee, the state has created, through various channels, more than 50 million new jobs in cities and towns, thus basically resolving the employment problem left from the past and mitigating the contradiction which was once very acute. However, the basic fact that China has a big population determines that we should regard a high employment rate as a long-term policy. In the Seventh 5-Year Plan period, several million new jobs should be created each year for the emerging labor force in cities and towns. China has limited sources of additional income each

year, from which we should also allocate some funds for economic construction. For this reason, in line with the principle "first, feed the people and second, build the country," we should rationally handle the relationships between economic development and improvement of living standings and between increased job opportunities and the raising of the workers' wage level. Not only should we attach great importance to improving the people's living standards, we should also proceed from the actual conditions in our country and act within our capabilities. We should not drastically raise the wage and consumption levels of workers and staff members all at once. Only in this way can we ensure the sustained, stable development of the national economy and lay a solid foundation for the sustained improvement of the people's living standards.

2. We should uphold the principle of distribution according to work, gradually overcome the practice of egalitarian distribution and, at the aame time, avoid the excessive difference in income. Our principle of distribution is distribution according to work. On the one hand, we should overcome the practice of egalitarian distribution and recognize the rational difference in people's wage income. In an enterprise or a unit, those who give a good account of themselves, have a higher professional or technical level, assume heavier responsibilities, and make great contributions should receive more pay and bonuses. Only in this way can we bring into full play the initiative of workers and staff members for production and other work. On the other hand, among different trades and enterprises, the wage difference of the workers and staff members should not be too big. We should take some control and regulatory measures to resolve various problems, such as the excessive difference in the wage income of the workers and staff members in different trades and enterprises, which is caused by different external conditions, and the excessive income difference, as well as the unfair distribution of profits, among some social members.

3. We should step up ideological and political work in the course of reforming the wage system and constantly resolve the problem of vying with one another in increasing wages and issuing bonuses. If, regardless of the different conditions, contributions, and economic performances in various units, those having less wages or bonuses indiscriminately emulate those having more wages or bonuses, it will inevitably lead to a spiral rise of wages, bringing about not only the egalitarian practice of "everybody eating from the same big pot" but also the loss of macroeconomic control over consumption funds. The resulting inflation and price rises will adversely affect the virtuous cycle of the national economy and infringe upon the immediate interests of workers and staff members. For this reason, it is absolutely necessary to step up publicity and education.

4. We should conscientiously strengthen macroeconomic control over the growth of wage funds. Our country is in the initial stage of its modernization. In such a stage of economic growth, appropriately fixing the growth rate of consumption funds is vital to ensuring the vitality of, and greater capacity for, long-term economic development. The wage funds are an important component of consumption funds. In reforming the wage system, we should not only appropriately transfer to a lower level the power to manage wages but also, on the Macao level, bring the growth of wage funds

under control and maintain a proper proportional relationship between the growth of wages and increased production and labor productivity. The state has taken some necessary control and regulatory measures and has enacted measures of administering wage funds. In the future, we should make further efforts to step up supervision and inspection in this field.

The reform of the wage system is a major issue affecting the development of the national economy and the living standards of the people. Under the correct leadership of the party and the government, with the concerted efforts of the large numbers of workers and staff members and the supervision of the people's deputies, and given a much more favorable economic and social environment than ever beofre, we are sure that we should be able to reform the wage system more satisfactorily.

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TRANSPORTATION

## BEIJING-HONG KONG THROUGH PASSENGER TRAIN UNDER DISCUSSION

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[Report: "The Feasibility of Direct Railway Passenger Transport Between Hong Kong and Beijing Is Under Discussion"]

[Text] Hong Kong, 12 Jun (ZHONGOUO TONGXUN SHE) -- Yang Gihua, director of the Guangzhou Railway Bureau and general manager of the Guangzhou-Shenzhen Railway Company, said that one of the spheres for the company's development is to open up through passenger train transport between Hong Kong and Beijing. The relevant departments are now studying the feasibility of this project. The company will strive to create the proper conditions.

Yang Gihua said the above in an interview he gave to a ZHONGOUO TONGXUN SHE reporter when he came to visit Hong Kong recently. According to Xu Ziju, assistant general manager of the Guangzhou-Shenzhen Railway Company, who accompanied him, the project to build a double line for the Guanzhou-Shenzhen Railway has already seen over 4 million cubic meters of clay and stone removed for laying foundation for the railway line and over 120 kilometers of track laid. The 8 sections of the double line, including that from Guangzhou to Yunlu, with a total length of 62 kilometers have already been put into operation. As a result, the volume of transport in these sections has risen by 50 percent. When the whole project is completed at the end of this year, the passenger and cargo transportation between Guangdong and Hong Kong will be further improved.

Now, 43 carriages of goods are carried out of Hong Kong by the Guangzhou-Shenzhen Railway Company every day. It is expected that this will rise by 10 percent when the double line is completed. The Hong Kong-Guangzhou through trains only carry 30 percent of the total number of passengers tht this company carries now. When the double line is completed, the company will discuss with the relevant departments the possibility of more runs by the through trains. At that time, each run of the through train will be shortened to about 2 hours.

Xu Ziju pointed out that about 8 million yuan is to be spent on this double line project. All the funds are to come from the company's operational profits and raised by the company on its own. This is an experiment by the company to undertake all-round contracted responsibility for the construction of a railway.

The company plans to complete the all-round electrification of the Guangzhou-Shenzhen Railway by 1987 and recover all the construction investment by 1991.

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17 JULY 1986

# China Report

## ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

## INTERNATIONAL COMPARISON OF CHINA'S TERTIARY INDUSTRIES

Shanghai SHANGHAI JINGJI [SHANGHAI'S ECONOMY] in Chinese No 2, 15 Aug 85 pp 20, 24

[Article by Zhu Qingfang [2612 1987 5364], of the Chinese Academy of Social Sciences: "Viewing the Gap Between Our Country's Tertiary Industries and Those of Other Countries of the World from Relevant Figures"]

[Text] During the 20 years from 1960 to 1980, the proportion of people employed in the primary industries of economically developed countries decreased from the original 18 percent to 6 percent; those in the secondary industries remained unchanged, at about 38 percent; but that of those in the tertiary industries increased from 44 percent to 56 percent. The proportion in the tertiary industries in China increased from 23 percent to 34 percent, and those in the tertiary industries of the low-income countries also increased from 11 percent to 16 percent.

During the 31 years from 1952 to 1983 in our country, the proportion of laborers engaged in tertiary industries increased from 9 percent to 13 percent, 107th among 126 countries and areas of the world today, lower than that of those in Korea, Vietnam, India, Laos, and Bangladesh.

Among the world's large cities, the proportion of people employed in the tertiary industries usually stands at 60-70 percent, with New York reaching as high as 83 percent, London, Tokyo and Paris also 70 percent or above, whereas our three big municipalities of Beijing, Tianjin and Shanghai remaining respectively at 33 percent, 27 percent and 24 percent.

During these past 20 years, among every 10 newly added laborers in the United States 9 have been those engaged in the tertiary industries; newly added employees in Japan have almost all belonged to the tertiary industries. And during the 31 years from 1952 to 1983 in our country, the tertiary industries have added only 1.6 among every 10 newly employed laborers.

The investment made by our country in the tertiary industries has also tended to be on the lower side. The investment of the Soviet Union in the tertiary industries has always made up 40 percent or more of its total investment; our investment in the tertiary industries, out of that invested in the capital construction of enterprises owned by the whole people, has made up about 34.5 percent.

In the developed countries, about 61 percent of their overall national output value has come from the tertiary industries, an increase of 7 percent over the 54 percent of 1960. In the revenues of the medium-income countries today, those of the tertiary industries make up about 47 percent of their overall national output value; in the low-income countries, the proportion is about 40 percent. The proportion in the overall national output value made up by revenues from the tertiary industries in our country has decreased from the 28 percent of 1952 to 18 percent, occupying the penultimate position among the world's 126 countries and areas, higher only than that of Uganda.

In 1983, the average per capita creation of wealth by the tertiary industries in our country was over 1,600 yuan (about $840), only half as much when compared to that by the secondary industries, whereas in the developed countries that of the tertiary industries was higher than that of the secondary industries. For example, in the 6 countries of the United States, Japan, Britain, France, Germany, and Italy, the average per capita creation of wealth by the tertiary industries was $26,400, 9 percent higher than that by the $24,100 by the secondary industries. Our country's current level, even if compared only to developing countries, makes up only as much as 30 percent of theirs.

The reasons why our tertiary industries have not developed very well are manifold. Because for a long time we have been subjected to the impact of "Leftist" ideas which one-sidedly stressed production and looked down upon consumption, this has caused our investment in the tertiary industries remaining on the lower side. Meanwhile, we have also excessively and prematurely removed and restricted the collective and individual economies that made up a considerable proportion of our tertiary industries; medical and public health services have been treated as charity and welfare undertakings, so that criteria for collecting fees have been too low, thereby causing these departments to lack internal momentum for further development. Besides, our commodity economy has not developed well; for a long time the elevation of the level of living standards for our residents has not been fast enough; things like these have all affected the development of our tertiary industries.

This backward state of our tertiary industries precisely serves to illustrate that their potential for development is very great. If we can reach the proportion of 16 percent in the number of people employed in the tertiary industries among all those employed, like in the low-income countries in general, we would be able to provide employment opportunities for 13.8 million people; if calculated according to the proportion of 34 percent of the medium-income countries, we would be able to add 96 million people to our employed. After economic restructuring in the countryside, there would be about 100 million people departing from the planting and breeding undertakings; after economic restructuring in the cities, there would be a surplus of over 10 million laborers from the industrial enterprises; such surplus laborers from the primary and secondary industries are bound to be tranferred to the tertiary industries. At the same time, development of our commodity economy and elevation of people's living standards are also providing a broader market for our tertiary industries. Today, the importance and necessity of developing our tertiary industries have already become gradually recognized by people; we can foresee that there will be a new situation of development by great strides emerging from our tertiary industries, with the gap between us and the world's other countries gradually narrowed.

Table 1.

Percentage($) of Number of People Employed in Tertiary Industries Among All the Employed in the World's Large Cities

| | | | |
|---|---|---|---|
| Hamburg (1970) | 65.1 | Los Angeles (1973) | 71.8 |
| New Delhi (1977) | 65.4 | Chicago (1979) | 65.6 |
| Tokyo (1981) | 71.1 | Nagoya (1981) | 72.2 |
| Osaka (1981) | 71.8 | New York (1981) | 83.0 |
| Philadelphia (1981) | 79.7 | Rome (1981) | 78.6 |
| Paris (1981) | 74.6 | Singapore (1981) | 63 |
| Melbourne (1981) | 68.7 | | |

Table 2.

Percentage ($) of Number of People Employed in Tertiary Industries Among All the Employed in Part of the Largeand Medium Cities in the Country in 1983

| | | | | | |
|---|---|---|---|---|---|
| Beijing | 33.3 | Tianjin | 26.5 | Shanghai | 23.9 |
| Canton | 27.6 | Wuhan | 28.8 | Shenyang | 25.8 |
| Changdu | 12.1 | Chongqing | 12.4 | Qingdao | 28.3 |
| Dalian | 23.7 | Anshan | 20.5 | Wuxi | 24.7 |
| Jilin | 14.6 | Xiamen | 20.0 | | |

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## GUANGMING RIBAO ON DEMOCRACY, MODERNIZATION

HK251201 Beijing GUANGMING RIBAO in Chinese 7 Jun 86 p 1

[Commentator's article: "Socialist Democracy and Socialist Modernization"]

[Text] Comrade Deng Xiaoping pointed out in 1979: "Without democracy, there will be no socialism, there will be no socialist modernization." ("Selected Works of Deng Xiaoping," p 154) Through our efforts over the past years, we have achieved great successes in promoting socialist democracy. However, there is still some confused understanding at present on the question of democracy. Following are two main expressions of this: 1) Some people hold that our socialist democracy is the best and most perfect democracy which demands no further development; once they hear people talking about democracy, they think that these people are trying to negate our socialist democracy. 2) Some people do not have a sufficient understanding of the great role played by socialist democracy in our modernization drive, denying that democracy should be further developed in the building of the four modernizations. If these confusions are not eliminated, our effort to further develop socialist democracy will certainly be obstructed.

Democracy is a kind of political system and has a certain course of development. According to the Marxist theory of the state, this course of development is: From the autocratic system to bourgeois democracy, from bourgeois democracy to proletarian democracy, and from proletarian democracy to no democracy at all. Proletarian democracy, which is based on the public ownership of the means of production, is more realistic and covers a broader field than bourgeois democracy, which is based on the private ownership of the means of production. Therefore, Lenin said that socialist democracy is a "democracy at a higher level," which is an important symbol of the superiority of the socialist system. However, when we say socialist democracy is one at a higher level, we refer to the type of democracy; but with regard to the course of development, this kind of high-level democracy should also follow a course of development from imperfect to perfect and from less advanced to more advanced, just like the course of development of socialism. At present, China's socialism is still not at an advanced level, and China's socialist democracy is not at an advanced level either. In our political life, insufficient democracy exists both in principle and in practice. In particular, since the feudal autocratic system lasted for more than 2,000 years in China and there was not a complete course of bourgeois revolution in our country, "old China left us more feudal and autocratic traditions than democratic and [word indistinct] traditions." ("Selected Works of Deng Xiaoping," p 262) This was clearly manifested in the practice in Mao Zedong's later years. In addition, Lin Biao and the gang of four utterly destroyed democracy during that period. Thus, China's socialist democracy became more imperfect and the management systems did not correspond with the needs. In certain localities, there is no democracy even in form. Public opinion cannot reach the higher levels and the instructions of the higher authorities are not appropriately passed down to the grassroots levels. This is incompatible with the modernization program.

We are now building socialist modernization with distinctive Chinese characteristics. This has a complete and specific meaning, that is, "to catch up with the developed capitalist countries in the economic field, to create democracy that is more advanced and realistic than the capitalist countries in the political field, and to train and bring up more outstanding people than in these countries." ("Selected Works of Deng Xiaoping," p 282) In his report at the 12th CPC National Congress, Comrade Hu Yaobang also pointed out that the modernization we are now pursuing includes three aspects: A high degree of material civilization, a high degree of spiritual civilization, and a high degree of socialist democracy. They depend on and interact on each other in the construction of socialist modernizations. It would be a one-sided view to regard socialist modernization merely as strengthening the socialist economic system. Without the guarantee of a high degree of socialist democracy in the political field, without a high degree of socialist spiritual civilization, the modernization attained would not be socialist modernization.

To put it concretely, the roles played by socialist democracy in the building of socialist modernization can be summed up as follows: 1. Overstaffed organizations, overcentralized power, bureaucracy, the patriarchial system, and leading cadres abusing power to seek personal gains are the major defects of China's current political system. If these malpractices are not eliminated, economic reform and opening up will be out of the question and it will also be difficult to carry out the building of socialist spiritual civilization. To eliminate these malpractices most effectively, we should reform the political system and strengthen socialist democracy so that they will correspond with the reform of the economic structure. Only when the people really have the right to take part in management, make criticisms, and exercise supervision can we ensure that the government will be responsible to, and efficiently serve the people and that the various reforms will develop in an orientation conforming to the people's aspirations. The recent reexamination of the television drama "New Star" after it had been praised for some time was an example of this. China's future is not determined by having more honest and upright officials like Li Xiangnan [a character in the play], but by a perfect socialist democratic system, under which people may dismiss all incompetent or degenerate officials whenever necessary. 2. Socialist modernization will not be able to vigorously develop unless the initistive and creativity of hundreds of millions of people are brought into full play. At present, the production responsibility system, the system of more pay for more work, and material rewards are important ways of arousing the initiative of the masses. However, they are not the only means. So long as we vigorously develop socialist democracy, let the masses take part in the management and supervision of their own units and state affairs, and make them realize that they are the masters of their own houses, the people will conscientiously and unreservedly give full play to their initiative and creativity. Such initiative and creativity will be the most powerful and endless sources of motivity for the modernization drive. 3. The policy of letting a hundred flowers blossom and a hundred schools of thought contend, and a good democratic atmosphere are the guarantee for the prosperity of socialist academic research and literary and artistic creation. Over the past 30 years or so, our party has accumulated successful experiences and has also made many mistakes on the question of freedom of academic research and creation. For this reason, when we commemorate the 30th anniversary of the double hundred policy today, it is important to reiterate the question of creating a spacious and harmonious envionment for public opinion. We are convinced that the institutionalization and legalization of socialist democracy and its implementation in scientific, literature, and art circles will inevitably promote the development of socialist spiritual civilization. In short, "the building of socialist material and spiritual civilizations should be ensured and supported by the further development of socialist democracy. Building a high degree of socialist democracy is one of our fundamental targets and tasks." (Hu Yaobang: "Create a New Situation in Building Socialist Modernization")

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CSO: 4006/1137

## JINGJI YANJIU DISCUSSES SEVENTH 5-YEAR PLAN

HK200611 Beijing JINGJI YANJIU in Chinese No 4, 20 Apr 86 pp 3-9

[Article by Wang Jiye [3769 4480 2814] of the Economic Research Institute of the State Planning Commission: "Some Reflections on the Macroeconomic Aspects of the Seventh 5-Year Plan"--written in March 1986--passages within slantlines pbulished in italics]

[Text] The Seventh 5-Year Plan (1986-1990) for our national economy and social development is put forward on the basis of the overall fulfillment of the Sixth 5-Year Plan. During the Sixth 5-Year Plan, our national economy increased steadily and persistently, the ratio relationship between light industry and heavy industry and the ratio relationship between accumulation and consumption basically tended to be appropriate, construction in science, education, and culture was strengthened, the economic results of our macroeconomy and microeconomy both took a turn for the better, the state financial revenue turned from decreases to increases, and the livelihood of the urban and the rural people both improved significantly. The reform in the rural areas had already scored spectacular victories, the reform in the cities unfolded comprehensively, the long-existing stereotyped and closed economic system was initially changed, and the entire economy was active and flourishing. All this was laid a good foundation and created favorable conditions for the development of the national economy and the society in the Seventh 5-Year Plan period.

At the same time, we should clearly see that in order to implement the Seventh 5-Year Plan, there are still contradictions in many aspects which need to be studied and resolved. Comparatively outstanding are the following three problems.

### 1. Correctly Handling the Relationship Between Reform, Construction and Livelihood

The principal tasks in the development of our national economy and society in the Seventh 5-Year Plan period are: To create favorable economic and social environments for the smooth progress of the reform, and basically lay a foundation for the socialist economic system with Chinese characteristics; maintain a continuous and steady growth for the economy, greatly strengthen the key construction projects and intellectual development and facilitate technological transformations so as to make good preparations for the economic developments in the nineties; and continue to improve the people's livelihood in the cities and in the rural areas on the basis of development of production and enhancement of economic results. The tasks set out by the Seventh 5-Year Plan are both glorious and arduous, and their fulfillment entails extremely great efforts. This is because: First, in order to create a good economic environment for the reform, it is necessary to reach a basic balance between the general social supply and the general social demand, but it is not easy, in the short term, to overcome the present state of imbalance in which the general social demand significantly exceeds the general social supply. Second, in order to maintain the continuous and steady growth of the economy, the excessive speed of economic growth must be reduced to a proper level, but the existence of excessively high demand is always promoting the revival of the super-high speed. Third, in order to continue to improve the people's livelihood on the basis of developing production and enhancing economic results, it is necessary to drastically reduce material consumption and raise the quality of products, which is much more difficult than overcoming the decrease in financial revenue. Fourth, in order to continue to improve the people's livelihood, it is necessary to adjust the structure of the industries in accordance with the changes in the structure of consumption demand. Bumper harvests have been recorded in recent years in our agricultural production, and the per capita possession of grain has increased considerably. However, the foundation in agriculture is still weak in association with the increase in population and the requirements in our national economy. The light industry has developed rather quickly, but the variety and quality of products are far from satisfying the people's needs in their rich and varied life. Furthermore, with respect to heavy industry, energy resources, transport, and the raw materials industry are still the "bottle neck" which inhibits the development of the economy, and in this respect, no short-term radical improvement is envisaged. The capability of earning foreign exchange in the export trade is not very strong, which cannot meet the requirements in the daily-increasing economic and technology exchanges with foreign countries. All these will directly or indirectly be expressed in relatively tense conditions in terms of capital and funds as well as materials during the Seventh 5-Year Plan period. Under this situation, it is necessary to seriously handle the relationships between reform, construction, and livelihood which are the main contents of the plan, so that they can be compatible with each other and promote each other's progress.

Fundamentally speaking, reform, construction, and livelihood are not contradictory. First, they are unified on the basis of the chain reaction created by the vitality of the reform. The vitality induced by the reform has become a strong motive force in motivating economic development; and the healthy development of the economy has provided a practical guarantee for improving the people's livelihood; and the people, from their personal experience, feel the urgency and necessity of reform, which makes the reform enjoy the extensive support of the masses. Second, they are unified on the basis of an adequate speed in economic growth. The fundamental aim of the reform is to develop the social productive forces. An adequate speed in economic growth is an important factor in evaluating the results of the reform, and is also a basic condition for the sustained growth of the economy and the improvement of the people's livelihood. Finally they are unified in the economic results.

Fundamentally speaking, reform can facilitate the enhancement of the economic results; the development of the economic construction should be based on the gradual enhancement of the economic results; and the improvement of the people's livelihood on the basis of enhancing the economic results can leave room for the successful handling of the relationship between accumulation and consumption and be beneficial to the harmonious development of the economy.

On the other hand, there are also contradictions between reform, construction, and livelihood. In the early stages of the reform, especially when the reform began by expanding the autonomous power of the enterprises and the area of distribution, the macroeconomic management failed to follow up immediately, and it was easy for people to seek speed in economic growth one-sidedly, which caused the general social demand to exceed the general social supply and aggravated the irrational aspects of the industrial structure and the product structure, leading to the so-called double imbalance in terms of the general quantity and structure.

Reform costs money, especially in the fields of wages reform and price reform. Although reform can enhance the economic results from a long-term point of view, which will provide funds for further reforms, this function is not obvious in the early stages, and it needs time to achieve support for reforms by enhancing the economic results.

In order to acquire a sustained strength for developing the economy, it is necessary to ensure the construction of the requisite key projects. However, key projects need substantial investment and a long construction cycle, and entail input without output for a considerable period of time, which will easily boost the accumulation rate and cause difficulties in comprehensively balancing the national economy. Of course, if viewed over longer period, key projects can and should yield greater economic results, not only regaining the investment, but also yielding profits. However, if the key projects cannot go into production after their completion because of lack of some component equipment, they will not be able to exploit their comprehensive production capacity but will aggravate the contradiction in terms of insufficient funds and materials. All these should be conscientiously treated in handling the relationship between reform, construction, and livelihood during the Seventh 5-Year Plan.

## 2. In Search of a Targeted Model of Planning System With Chinese Characteristics

It is an unprecedented attempt in the history of development of our planning work to incorporate the contents of reform in the Seventh 5-Year Plan. Since large-scale construction began in our country, the present Seventh 5-Year Plan is another mid-term plan with rich and comprehensive contents after the implementation of the First 5-Year Plan. Compared with the past 5-year plans, its primary feature is to attach the greatest importance to reform. During this period, it is planned to continue to carry out the reform vigorously, and further enliven the large and medium-sized enterprises owned by the whole people, so that they can acquire the ability of self-transformation and self-development; establish and perfect the sociailist market system so as to facilitate the development of the socialist commodity economy; and gradually turn to a macroscopic management with indirect control as the main measure, and make use of economic, legal, and necessary administrative measures to control and adjust the operations of the economy. In order to fulfill the great task of reform, it is very necessary to conscientiously seek for a targeted model of socialist economic system with Chinese characteristics, particularly a targeted model of the planning system in the reform.

The implementation of a planned commodity economy is the basic principle in guiding the reform of the planning system. With regard to the theoretical studies of the economy in our country, there are two practical interpretations regarding the planned commodity economy. One is to place great emphasis on the planned economy, incorporating the commodity economy, the market mechanism in particular, into the entire course of the operations of the economy, thus forming a targeted model of planned commodity economy with commodity economy or market mechanism. Another is to lay emphasis on the commodity economy, and to develop commodity production and commodity exchange in a planned way, thus forming a targeted model of planned commodity economy guided and controlled by the plan. If viewed from the relationship between plan and market, the former means the market infiltrating the plan, and the latter means the plan infiltrating into the market. Hence, they can be said to be two targeted models involving the infiltration of the plan and the market.

Here we do not intend to comment on the above two models from a theoretical point of view, but wish to put forward some problems for discussion which merit our attention no matter what model we are to adopt.

/1. The question concerning the proportionate development of the national economy./ The socialist economy must develop in proportion. This is true no matter how the planned commodity economy is interpreted. The key to this lies in how we interpret and realize the proportionate development. The following thesis is familiar to all of us: "Planning means practically a balance maintained constantly and consciously." (Lenin: "Non-critical Criticism," Complete Works of Lenin, vol 3, p 566) However, if planning is only regarded as equivalent to proportionate development, and proportionate development as relative quantitative balance in terms of important proportionate relationship in the national economy, the exploration and study of the inherent association of the economic operations will be neglected. The inherent association of the operations of the economy is quite regular, and is always in a relatively steady state if no great changes take place in the economic conditions. However, the proportionate quantitative relationship is not the same, and it varies with the changes of the political and economic tasks in different stages. In the past, the theories on planned economy emphasized the study of the quantitative aspects of the proportionate relationship, and the inherent association of the economic operations was not explored intensively or studied on the basis of the planning system. This is an important question in the present theoretical study of the reform of the planning system. On the other hand, the inherent association of the economic operations is essentially a relationship of economic interests. Under the condition of a planned commodity economy, the handling of the economic interests of various sectors cannot be separated from the relationship between commodity and currency as well as the market mechanism. If proportionate development is simply regarded as equivalent to the quantitative relationship of proportion, the tendency will be to lay greater emphasis on directive plans and administrative measures and pay little attention to utilizing economic levers and expanding market adjustment, thereby hampering the incorporation of the relationship of commodity and currency and market mechanism into the whole course of the planned management and the conscious realization of the proportionate development of the national economy.

It is not an easy matter to develop the commodity economy in a planned way and realize proportionate development on the basis of public ownership. The fundamental law of the commodity economy is the law of value. The commodity value is determined by the requisite social labor time. Under the present condition, the exchange of commodities on the basis of value has to rely on the market and price. In this way, the utilization value of commodities and the realization of the value have to be affected or restrained by the demand-supply relations in the market, resulting in a fairly great blindness. The socialist market cannot eliminate this blindness completely, but it is possible to reduce this blindness to a minimum through the planned management of the market. The difficult point is how to achieve mutual adaptability and mutual promotion between planned management and the commodity economy and especially the market development, and how to both facilitate the development of the commodity economy and the expansion of the market and be beneficial to the balanced link of the important proportionate relations in the national economy. Of course, strengthening and perfecting macroeconomic control is an effective way, but the selection of the target and key points of the macroeconomic control as well as the arrangement and perfection of the control mechanism have to go through a process of investigation and exploration. In particular, the practical measures in realizing the macroeconomic control are not easy to map out. The macroeconomic control with indirect control as the main resort governs the commodity producers primarily through the market, the contradiction of control and counter-control will become prominent. If this is not handled well, both the further development of the commodity economy and the conscious proportionate development will be hampered.

/2. The question [word indistinct] the evaluation of the original planning system./ Is the original planning system completely wrong--and should it be thoroughly negated, or should part of it be retained for improvement and perfection? This is the question encountered by both of the two targeted modes. If part of it should be retained, can we assume that the main content for improvement should be the [word indistinct] the necessary financial resources, material resources, and manpower to carry out key construction and to realize macroscopic control and adjustment over the national economy? [Words indistinct] such as ours with a vast territory, an economy not very well developed, and the development not well balanced, key construction projects which have an important bearing on the state's economy and the people's livelihood should not be conducted by means of the free competition of capital and funds and their free transfers. Maintaining an adequate and requisite concentration is one method, on which we place great hopes, to strengthen our economic capabilities and give an impetus to our socialist construction. As for the existing waste in our key construction, the main problems consist of the overstretching and overexpansion of the projects as well as management problems such as the management system in the capital construction. Of course, we can have another idea, that is, to carry out key construction through capital competition and free transfer following the examples of Western countries, without concentrating the financial and material resources and manpower to carry out key construction, which is really unprecedented in our country. In this regard, a result that can be envisaged will be a very long process of key construction (particularly the concentration of capital and materials) accompanied by a great waste of social labor. Which of these two ways is more compatible with the conditions of our country has to be considered in terms of economic results and social results as well as how to enhance the strength of the state more rapidly.

/3. The question concerning the relationship between the balance of capital and the balance of materials./ Theoretically this is a relationship between the balance of value (currency) and the balance of the utilization of value (material objects). Value and utilization value as well as currency and material objects are two forms of the movement of the socialist expanded reproduction, and they possess both association and difference. Since they are two different forms, there should be contradictions between them. It is true that the theoretical study of the planned economy and the work of planned economy paid insufficient attention to the balance of value in the past, and more emphasis was laid on the balance of material objects, which should be improved, and particularly that balance of value should be given a more important place by the reform of the planning system; however, the importance and necessity of the balance of material objects should not be negated just because the balance of value is emphasized, nor should the contradictions between the balance of value and the balance of material objects be denied. The task of the planned management is to do a good job in handling these balances and make them act in coordination so that the national economy can be developed in a proportionate way both in terms of the form of value and in terms of the form of material objects.

/4. The problem concerning vertical association and lateral association./ In the original planning system, vertical association was based mainly on the departmental management, and lateral association was ill-developed, resulting in the contradictions between different regions and places. However, the turning of vertical association based mainly on departments to the development of lateral association so as to meet the needs of turning the direct control in macromanagement to indirect control as the main resort does not mean the abolition of vertical association, but rather it necessitates the discovery of a new form of vertical association. With the development of the socialist commodity economy, the market is daily expanding, and lateral association is being strengthened and developed. Developing lateral association is an irrestible trend and is the objective need in planning the commodity economy, having many advantages. From the viewpoint of planned management, developing lateral association can complement those things vertical planned management lacks and break through the hindrance of boundaries, further expose the contradictions of the original planning system, and find out the concrete direction and ways for the reform in the next stage. For example, while developing lateral association, how to manage investment will vertically so as to maintain the control of investment: how to do a good job in achieving a comprehensive balance so as to avoid unnecessary repetition in construction; how to adjust the distribution of revenue properly so that the localities producing raw materials can obtain practical benefits; and so on. The above are problems which will be encountered in developing lateral association, and they should also be studied and solved in handling the vertical operations of the economy. In the planned commodity economy, vertical association and lateral association are closely interwoven and complement each other. Therefore, in exploring the targeted model in reforming the planning system, great importance must be attached to the development of lateral association while paying attention to coordination of vertical association, thus facilitating the planned development of the socialist commodity economy and market.

/5. The Question Concerning the Socialist Market./ The development of the commodity economy necessitates the opening up and expansion of the market. The market is the sum of supply and demand as well as the sellers and the buyers. Theoretically speaking, the prerequisite for developing the market is the expansion of the social division of labor, the intensity of the market development marks the degree of dependence of the social production on the social exchange, and the extent of the market development reflects the degree of socialization of production. The trend and process of the development of our socialist market should be investigated and studied in relation to China's practical conditions. On the basis of the public ownership and under the present condition that materials are in short supply, the formation of the market will take a considerable time and will encounter problems which did not arise in other countries. Enough attention must be given to this in utilizing our market mechanism. The main mechanism of the market is the price, and the price changes reflect the state of demand and supply. Relaxing control over prices will facilitate the expansion of the commodity market. A narrow market is caused by the irrational distribution of the resources (products). Relaxing control over prices can increase supply rather rapidly and improve the relations of demand and supply, enabling the products to become commodities and enter the market. However, it should be noted that for those products requiring a longer cycle of production, relaxing the price may not lead to an increase in supply and may cause the price to rise sharply if things are not handled properly. A similar situation will emerge if the price is relaxed for those commodities with limited resources and great demand, even leading to the tendency of non-currency exchange. In other circumstances, some agricultural and sideline products cannot become commodities because of poor information, backward transportation and communications, and poor channels of circulation. Under these conditions, utilizing the mechanism of the developed countries for adjusting market supply and demand often leads to unexpected problems, such as distorted reactions to the market mechanism. Our market must be developed in a planned way. Planning should guide, manage, and control the market, and should at the same time develop the market vigorously. Therefore, an important and diffiuclt problem in reforming the planning system of our economy is the discovery of an adequate way to organically combine the planning mechanism with the market mechanism, so that the socialist orientation of the market can be ensured while enlivening the market.

/6. The question of ownership./ The two interpretations of the planned commodity economy and the two ideas on the targeted model of reforming the planning system will ultimately come across the question of ownership. All of us admit that the basis of the planned commodity economy is the socialist public ownership, and that the development of the commodity economy must be beneficial to the consolidation and development of the socialist public ownership. However, the socialist public ownership consists of two basic forms, that is, ownership by the whole people and collective ownership. With regard to the ownership by the whole people, small enterprises will be easier to deal with, because they can be turned into collective operations through leasing or contracting. The main problem lies in dealing with the large and medium-sized enterprises. At present, an unequal condition of competition exists between the large and medium-sized enterprises owned by the whole people and the enterprises owned by the collective in terms of pricing, taxation, and other aspects. In addition, because the power, responsibility, and interests of these large and medium-sized enterprises owned by the whole people have not combined well, they are in a rather difficult state. What is the way out? Can we assume that the only way out is for them to adopt the form of collective ownership or contracting by the collective? The large and medium-sized enterprises owned by the whole people, the large ones in particular, are vital to the economic lifelines and strength of our country and they are established through the strenuous efforts and hard labor of the people. Therefore, in terms of rights and interests, it is unreasonable to contract them to only a portion of the population (the collective). Hence, the problem lies in another side: That is, what composition our socialist public ownership should have, what proportion the economic activities of our enterprises owned by the whole people should enjoy, by what means the operations and management of these enterprises can improve and gradually set up on the road of self-transformation and self-development, and how to develop the advantages of these enterprises so that they can lead and guide the collective economy and the individual economy to advance in the direction of socialism.

## 3. Step on a New Road of Developing the Socialist Economy

In the Sixth 5-Year Plan period, our country began to find a new way of developing the socialist economy. Its basic points are: the speed is rather practical, the economic results are quite good, and the people can get more practical benefits. If our economy is to truly take this new road, great efforts are still needed in doing well various aspects of work. An important point is to handle well the relationship between speed, the proportion, and the economic results.

How can we make the speed of our economic growth practical? What we call a practical speed means an adequate speed without any false and repetitive calculations. An adequate speed must be a speed with some leeway. In the next 5 years, many factors will affect or restrain the economic growth. Some factors can be envisaged with fair accuracy but some are rather uncertain, and even those factors which can be envisaged may change unexpectedly in the course of execution. An economic growth speed with some leeway will facilitate the adjustment of material distribution and the balance of capital distribution between annual plans, so that the economy can develop continuously and steadily. The rate of economic growth set out in the Seventh 5-Year Plan is slightly higher than that in the Sixth 5-Year Plan, but is in fact much lower than the practical growth rate in the Sixth 5-Year Plan, especially so when compared with the rate in 1985. This is determined by the main tasks of the Seventh 5-Year Plan. An adequate rate of economic growth should be a speed that can support reform, ensure key construction, and improve the people's living standards.

Will the rate of economic growth set out in the Seventh 5-Year Plan lead to a sagging of the economy? This question is attracting a lot of attention. At the beginning of the Sixth 5-Year Plan, people also harbored similar worries. Then, we intentionally slowed down the rate of economic growth so that we could concentrate our efforts on adjusting the national economy and restoring the proper level of ration relationship between agriculture, light industry, and heavy industry while turning our economic work to the path of enhancing the economic results. The above targets were basically achieved in executing the Sixth 5-Year Plan. The remaining problems were: The product structure could not meet the changes in the consumption structure; economic results were not up to our expectations although some improvement had been made; material consumption in the social production did not record a decrease; and the situation of poor product quality had not been fundamentally changed. Although the speed set out in the Seventh 5-Year Plan is lower than the practical speed in the Sixth 5-Year Plan, it is beneficial to inhibiting the trend of pursuing speed one-sidedly, to concentrating our efforts on adjusting the structure of industries and enhancing the economic results, and to turning our national economy to the path of expanded reproduction utilizing inherent capabilities. So long as we can do a good job in adjusting the industrial structure and enhancing the economic results and maintain an adequate rate of economic growth, our economy will not shrink, but will possibly attain a benign cycle, laying a solid foundation for the economic development in the 1990's. That is to say, whether the economy will shrink depends not only on the speed of economic growth, but also on the rationality of the industrial structure and the degree of enhancement of the economic results. The economic development during the Sixth 5-Year Plan period once again proves that it is easy to attain a high speed at a certain time and in a certain place, but it is difficult to maintain a continuous high growth rate. If the industrial structure is irrational and the economic results are low, not only will very high speed be hard to maintain, but also we can hardly say that the economy can attain a really high speed of development.

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The ratio of accumulation and consumption is an important relationship in the national economy, and is a main standard for evaluating whether the entire economy is steady and enjoys coordinated development. The accumulation rate stipulated in the Seventh 5-Year Plan is not low, which will lead to a prominant contradiction between speed and ratio. The speed set out in the plan is adequate, and what worries us is the accumulation rate. Generally speaking, an excessively high accumulation rate will give rise to a high speed, since a high speed and a high accumulation are two aspects of the same economic process. However, this is but one of the possible developments of the economy. In our practical economic life, whether a high accumulation can lead to a high speed depends also on the formation of the accumulation, and mainly depends on the distribution between the non-productive accumulation and the productive accumulation. In the case of a high accumulation, under the premise that the productive accumulation can ensure an adequate rate of economic growth, a relatively high non-productive accumulation used to improve the people's livelihood and its rise in the formation of the entire accumulation will not give rise to a high speed of economic growth, but will facilitate the correct handling of the relationship between accumulation and consumption. However, if the proportion of the productive investment in the accumulation is excessively great and the proportion of the non-productive investment is too small, it will very possibly lead to a high speed in economic growth and may harm the adjustment of the relationship between accumulation and consumption. In the case of a high accumulation, if the productive accumulation cannot ensure a sustained growth of the economy, and the non-productive accumulation is mainly used in building houses and restaurants which have nothing to do with the improvement of the people's livelihood or the development of tourism, it will aggravate the contradiction between the speed economic growth speed, the accumulation, and the improvement of the people's living standards. The key in resolving this contradiction is to do a good job in distributing and utilizing the newly increased national income, which will determine the sustained capability of developing the economy, the possible step in readjusting the industrial structure, and the extent of improvement of the people's living standard.

The Seventh 5-Year Plan attaches great importance to the economic results, and this is a prominent feature compared with the past 5-year plan. The reasons for enhancing the economic results have been dealt with quite comprehensively, and the key in this plan is the adoption of effective and vigorous measures to realize this objective. The enhancement of the economic results involves many aspects, such as reforming the economic system, adjusting the industrial structure, improving the operations and management, promoting technological progress, and so on. Naturally all these are very important, but their marked effects in enhancing the economic results can be witnessed only over a period of time, even a considerable length of time. In the Seventh 5-Year Plan, in order to support the progress of the reform, the development of production and construction, and the improvement of the people's living standards, the key points in enhancing the economic results at present and in the few years to come will be as follows:

--Reduce and even stop various forms of waste in production and construction. A considerable amount of capital and materials can be saved if only 1 percent of the material consumption in our production is reduced. Great potential exists in this respect, especially in the large and medium-sized enterprises. Some success in this field will be beneficial to alleviating the tension in terms of the supply of capital and materials.

--Enhance the economic results in utilizing foreign capital and importing technology. This contradiction will become even more prominent with the further opening up to the outside world. We cannot separate utilizing foreign capital from enhancing economic results, and we cannot separate importing technology from assimilation and transformation. Tension in foreign exchange will exist for a long time in China. We must increase exports and earn foreign exchange in every way possible, and seek economic results in utilizing foreign exchange, and we should try hard to gradually achieve the aim of mainly relying on our own strength to expand economic and technological exchanges with other countries.

--Attach great importance to investment results. Great efforts must be exerted to enhance the investment results of our capital construction. It is necessary to control the scale of construction, adjust the structure of investment, and use our capital and funds in those items with good economic results which can meet the urgent needs of our country. At the same time, new items should be strictly controlled, and items under construction should be carefully assessed. Both the newly-approved items and the retained items under construction should proceed in accordance with the proper schedule and order and their timely completion and operation should be ensured. Delay in construction schedules is an important reason for poor investment results. In particular, the low economic results caused by the delay in large and medium-sized projects cannot be remedied by any microeconomic results. It may be said that enhancing the investment results is the key to improving the economic results as a whole.

Speed, ratio, and results are closely associated with the industrial structure. If the industrial structure is irrational, fluctuations will occur in the speed of economic growth, the ratio relationship will lose its firm foundation, and the economic results will not be able to rise fundamentally. In this sense, it can be said that without a rational industrial structure, speed, ratio, and results will be difficult to coordinate, and the arrangement and implementation of the 5-year plan will meet with difficulties.

The rational adjustment of the industrial structure involves the interests of various sectors, and is not an easy matter to handle. It needs considerable time to accomplish the work. On the one hand, adjusting the industrial structure should be based on the consumption structure, while the latter changes quite rapidly. Even if the demand can be effectively contained, it will be hard for the steps of the adjustment of the industrial structure to follow. On the other hand, the adjustment of the industrial structure is restrained by the investment structure. We may even say that the degree of adjustment of the investment structure determines the speed of the possible adjustment of the industrial structure. Furthermore, there are hindrances as well as difficulties in adjusting the investment structure, which is hard to accomplish within a short time.

In adjusting the structure of industries, there are many aspects of problems which need to be studied. For example:

1. The formulation of the development plans for different regions and trades. This is the strategic basis for adjusting the industrial structure. The Seventh 5-Year Plan has made a rough arrangement for the deployment of the regions, which is a great advance compared with past 5-year plans. On this basis it is necessary to draw up plans for different trades, which may be regarded as the work of the early stages of the Seventh 5-Year Plan, and may also be regarded as a component part in the adjustment of the industrial structure. Blindness can hardly be avoided in adjusting the industrial structure without the plans for different regions and trades. Plans, forecasts, and the planning work, when well combined, will gradually perfect the 5-year plan, and will be beneficial to the overall long-term arrangements for the adjustment of the industrial structure. In addition, the planning of the construction items will have something to follow.

2. The selection of the beginning industries and the leading industries. In our western regions, the economy is not well developed, and the beginning industries should be selected properly in accordance with local conditions. These should be those industries which can achieve quick results with small investment, can expand the production and circulation of commodities, and

can give play to the strong points of the regions. In addition, these industries should be able to enhance the economic results, the ecological results, and the social results. With regard to industries as a whole and especially the adjustment of the industrial structure, it is both necessary and important to select the leading industries well. If the leading industries are not clearly designated, various trades and industries will vie with each other in developing themselves, leading to the ever-increasing demand of energy resources and raw materials. In this situation, investments, no matter how great they are, will not be able to allay the contradictions between demand and supply. According to the concrete conditions of our country, the selection of the leading industries should give prominence to those industries which can lead the whole industrial structure to sophistication and modernization and can increase exports to earn more foreign exchange. At present, it is difficult for any industry to achieve both of these objectives. However, arrangements have to be made on the basis of long-term considerations. Preferential policies and measures should be adopted in respect to capital and funds (including foreign exchange), materials, and prices, so that the leading industries can gradually be established. On this basis, it is necessary to further make clear the stages and levels in adjusting the industrial structure, and carry out the adjustment gradually in accordance with the possiblities of the financial and material resources of the state as well as the needs in our economic development.

The above rough reflections on the Seventh 5-Year Plan can only pose some questions for discussion. Their solution awaits our future exploration and study, both theoretically and practically.

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# JINGJI YANJIU ON ECONOMISTS' SOCIAL RESPONSIBILITY

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[Article by Tang Zongkun [0781 1350 3540]: "A Sense of Social Responsibility of Economic Theory Workers"]

[Text] In the year or so since the passing of the "Decision on the Reform of the Economic Structure" by the 3d Plenum of the 11th CPC Central Committee, our nation's research into socialist economic theory has seen a new situation of unprecedentedly vigorous development. This short article cannot and need not summarize the rich results achieved in socialist economic theory research over the last year or so. It is only necessary to note a few important points and it will be possible to see some of the progress made in economic theory.

First, it has accorded with the demand to develop a planned commodity economy on a base of public ownership, and formed a three-part reform concept of increasing enterprises' vigor as commodity producers and operators, of establishing and perfecting the market system and of changing from mainly using direct macroeconomic controls to mainly using indirect macroeconomic controls. This has made the planned commodity economy system concrete. It has stepped over the restrictions of selecting goal models which use administrative centralized power or dispersed power as their axis and in the selection of goal models, there has been wide-scale development which has a scientific basis and is rich in long-range prospects.

Second, in the coordination of microeconomic regulation and the microeconomic base, and in the relationship between the economic movement mechanisms and ownership systems, it has directly raised and explored questions on the reform of the ownership structure. At present, research into the ownership structure not only includes research into the ownership structure, that is the social ownership structure, by looking at the external aspects of the various ownership systems, but also includes research into ownership systems by going deeply into the internal aspects of the various socialist ownership forms. This has especially been so with respect to research into the international structure of state ownership. At the same time, there has been concrete research into the various ownership systems and structures with respect to the degree to which they are suited to the situation of the productive forces, from the angle of the innate mechanisms of the various ownership systems which exist in society and the relationship between them.

Third, research into the questions of pricing has already broken through the restrictions imposed by confining questions of price formation within the fixed limits of administratively stipulated planned pricing categories. It has entered a deeper level where research is conducted into price reform questions by proceeding from the basic function of pricing and the various price formation mechanisms. It has also revealed that the source of chaos in pricing lies in the ossified nature of the pricing system and thereby clearly sets down that the direction of pricing reform lies in coordinating the reforms of the pricing systems and the pricing structures and in putting the stress on the structural reform of prices. This pricing reform direction provides, for the reform of the materials supply system, a route by which the administrative allocation of the means of production can be gradually reformed into commodity circulation through the "double-track system."

Fourth, in the question of the relationship between reform and construction, the resolution of the problems of dramatic growth in demand and excessive growth in the economy which appeared in the fourth quarter of 1984, was taken as the juncture. On this base, at the same time as essentially affirming the good economic sitaution, timely research was conducted and the factors of instability in the national economy, which were threatening the reform of the economic structure and long-term economic development, were uncovered. Thereby the issue of creating fine economi cand social conditions for the reform of the economic structure was systematically put forward and explained on the theoretical level. This provided a theoretical base on which reform could be maintained in prime position, so that reform and construction can accord with each other and promote each other in the fixing of strategic guiding principles.

Fifth, developmental research has been carried out from different trains of thought, into the characteristics of our nation's present stages of economic development and various definitions have been put forward. For example, they include the change-over stage of combining structural models and economic development models, the transitional stage of change from a plural economy to a modern economy, and the stage of new maturation where the national economic structural reforms are the main content. Although these definitions still need further specific exposition and mutual comparison, one thing can be affirmed. That is, this research has, to different degrees, touched on the complex contradictions in the deep levels of society and this has helped form the necessary theoretical base on which, from quite a wide historical span, we can ponder and devise economic structural reforms and on which we can achieve economic and social development.

Sixth, research into the socialist production relationships has been deepened. Research has changed from the former, abstract static description of economic categories and economic laws to a deeper examination of the specific, dynamic situation of economic mechanisms. By proceeding from the actual economic process, research has been conducted into economic mechanisms which has created the necessary scientific prerequisites for thoroughly uncovering the essence of socialist production relationships, and for earnestly exploring the socialist economic categories and economic laws. This sort of research can also more thoroughly uncover the problems of the old ossified system, and will thus more automatically create the necessary structural conditions for the formationof the new mechanisms of a highly-effective economic movement. It will also provide a scientific base for adopting correct countermeasures which accord with the economic mechanism changeover during the process of changing the old economic structure for a new economic structure.

Seventh, our nation's traditional socialist political economic system discarded the reality of a market mechanism for a theoretical reproduction of a socialist economic system which had as its base an expanded natural economy. Thus, there was no way for it to accommodate a socialist economic system based on a planned commodity economy. There was also no way to resolve the innumerable new problems which arose in the process of reform of the economic structure. Also, it had the methodological drawback of researching problems in an isolated and static way. Thus, much less was it capable of facing the task of basically transforming, in terms of the theoretical system, socialist political economics, a task which has been put forward very naturally by our economic theory workers during the great strategic changes of our nation's economy. Some economists have already started or are preparing to start exploring this from different angles. Realizing this task will of course require unremtting efforts over a long period. However, the putting forward of this task is a great awakening by our nation's economic circles.

Through looking at the situation in our nation's economic theory research in the year-plus since the passing of the "decision," we can say, without any exaggeration, that in this period the breadth of socialist economic theory research and the depth of the research levels have both exceeded those in any period of our nation's past. The present station of our nation's socialist economic theory research is the best since the founding of the PRC. The vast numbers of economic theory workers have, under the guidance of the "Decision of the CPC Central Committee on the Reform of the Economic Structure," put great efforts into promoting the reform of the economic structure, done investigative research, been brave in exploration, developed progressively and demonstrated their intense sense of social responsibility in the cause of socialist modernization. However, among the economic theory workers, there are a few comrades who feel that the series of important topics put forward for the reform of the economic structure are not worth looking at. They feel that at present our nation's economic research areas are experiencing a "phenomenon of disorder." They make secret complaints to superiors and make false reports about the situation. They thus advocate strict controls on the tendencies of liberalization in the economic theory circles. These astonishing attitudes of indifference or even arrogance toward theoretical exploration in the reform of the economic structure form a striking contrast with the intense sense of social responsibility of the broad masses of economic theory workers. Any economic theory workers who has an intense sense of social responsibility must pay attention to where the controls advocated by these comrades will lead us.

Past experience, if not forgotten, is a guide for the future. There is no need to speak of how in the past "leftist" guiding ideology used the pretext of criticizing "bourgeois liberalization" and dragged us into 10 years of chaos during which our nation's economic theories were all razed to ruins and the economy was in a desolate situation on the brink of collapse. This remains fresh in our memories. Even if we look at the situation since the 3d Plenum of the 11th CPC Central Committee, which is vastly different from what had gone before, we only need to look back at the experiences in our nation's economic theory research between the 3d Plenum of the 11th CPC Central Committee and the 3d Plenum of the 12th CPC Central Committee, and that will give us great food for thought and make us more viligant.

In the first year following the 3d Plenum of the 11th CPC Central Committee, that is in 1979, our nation's economic circles, by proceeding from the exploration of planning and the market in a socialist economy, put forward a series of new questions and new ideas. In the past, these could not be put forward as there had been various types of restricted theoretical zones artificially established. For example, they looked at the question of the market mechanism in a socialist planned economy, put forward the idea that a socialist economy is a planned commodity economy, the idea of the law of value regulating, within the whole society, socialist production and circulation; the idea that national economic planning must take the law of value as its base; the idea that mandatory planning should be changed to guidance planning; the idea that price should not only reflect value but also be a reflection of the supply-demand situation; the idea that socialist enterprises must realize the separation of government and enterprise functions and must be reformed into independent commodity producers; the idea that a socialist commodity economy still has a mechanism of competition, and so on. All these ideas which in the past in our nation had been seen as "bourgeois liberationzation" and which are now recognized as guiding ideological viewpoints in the reform of the socialist economic structure, were all first put forward in 1979. At that time, when they were put forward, they generated great debate, with many people expressing doubts or hesitation about the ideas. At the same time, in our nation's economic circles, some people began to look beyond reform of the economic system to the relationship between reform of economic movement mechanisms and ownership reforms, and put forward the questions of the development of socialist ownership forms. Following this, in 1980, they also put forward questions of ownership structures, which elicited intense debate in economic circles. These were all important breakthroughs with respect to the unrealistic traditional concepts which had long ruled our economic theory. They also played an undeniably promotional role in the development of our nation's socialist economic theory and practice.

The appearance of this thriving situation in our nation's economic theory research, which in the past could not even have been imagined, is not something which has happened accidently. The brilliant decision on developing economic structural reforms taken by the 3d Plenum of the 11th CPC Central Committee greatly prompted the vast numbers of economic theory workers to have an intense sense of social responsibility with respect to the socialist cause. The Marxist ideological line established by the whole plenum of liberating ideas and seeking truth from facts also greatly encouraged then to persist in proceeding from reality and in using a Marxist stand, views and methods to research the new situations and new problems in the new period. It was with the calls and encouragement of the Third Plenary Session that the enthusiasm of the economic theory contingent for socialist, which had been stifled by the long period of "leftist" guiding ideology swiftly burst forth, manifesting a Marxist creative power rich in vigor.

However, everybody knows that although there was the guidance of the line and principles of the 3d Plenum of the 11th CPC Central Committee, our economic theory workers had great difficulty making progress as they had to overcome the various man-made obstacles of those who opposed the spirit of the Third Plenum. The impetus of the thriving development of socialist economic theory research which commenced in 1979 drew more and more economic theory workers into researching, in the see-truth-from-facts way, the theoretical and practical problems of the economic structural reforms. However, regular academic discussion in the economic theory fields was often subject to baffling interference. For example, it was said that socialist economics could only talk about commodity production not about a commodity economy, that the basic indication of a socialist planned economy was mandatory planning and could not be guidance planning and that the planning system could only be improved, it could not be reformed. It was also said that reforming the planning system was negating the basic principles of the socialist planned economy, and that the law of value could only play an auxiliary role to economic planning and could not be the basis of planning. In addition, it was claimed that one could only speak of two major divisions and could not speak of the three divisions of industry, and so on. If these ideas were just an individual's views contributed to a discussion, it would not be strange, as everyone is permitted to have their own views on academic questions. Also, regardless of whether a viewpoint is correct or not, as long as we persist in allowing the comrades who hold these views to participate in the academic discussions on an equal footing, it will play a beneficial role in the deepening of overall theoretical research into the socialist economy. However, some people do not believe that it is necessary to convince people by reasoning, and take the role of an authority and want to act as judges on theoretical viewpoints. This basically violates the laws of the development of economic science. Facts have shown us that this attitude and these actions interfere in the implementation of the principles of liberating our minds and seeking truth from facts established by the 3d Plenum of the 11th CPC Central Committee. They are a pressure obstructing creative exploration among our economic theory ranks. This has resulted in various setbacks to the development of the good economic theory research environment which appeared after 1979 in combining basic Marxist theory and our own nation's concrete reality. It led, at various times between the two third plenary session, to our nation's socialist economic theory research into various important questions becoming temporarily stalled, and on some questions even seeing retrogression. Thus, the research became divorced from the reality of the economic structural reforms being carried out in our nation.

It is precisely because our vast numbers of economic theory workers have gone through this experience but have persisted in proceeding from reality and being brave in carrying out theoretical exploration that they have been able to realize profoundly the immeasurable theoretical strength and practical significance of the "Decision of the Reform of the Economic Structure" taken by the 3d Plenum of the 11th CPC Central Committee. The "Decision" clearly affirms that the socialist economy is a planned commodity economy based on public ownership and thereby, in the area of socialist economic theory, systematically breaks through traditional ideas which have already been shown by practice to not accord with reality. This model of combining basic Marxist theory with contemporary China's reality is a scientific summation of the experiences of socialist construction in both China and abroad, and is especially a summation of the new experiences of the reform of our nation's economic structure. It is also a summary and development on a higher plane of the scientific results achieved in our nation's economic theory research since the 3d Plenum of the 11th CPC Central Committee. It further liberates ideas with respect to economic studies and at the same time clearly sets down the direction of economic theory research as being directed towards actual practice. The "Decision" not only provides a series of new topics in economic theory research and gives economic theory workers a heavier social responsibility, but also takes correct decisions with respect to guiding the healthy development of economic theory research and clearly sets down that "different stands and different theoretical ideas on questions of reform can be developed and discussed." This further creates the necessary political environment for exploration in economic science. It is precisely this background which has promoted the formation of the very good situation in our nation's economic theory research over the last few years.

The present situation of vigorous development in our nation's economic theory research has been hard-earned and the great number of economic research workers greatly value it. Of course, we cannot tolerate any attempts to reverse this situation. What are the above-mentioned individual economic theory workers referring to when they criticize the so-called "tendencies of liberalization" and "phenomena of disorder" existing in current economic theory research? The charges they have cooked up are nothing but claims that some people are advocating that market regulation must play an important role in economic systems movements, that some people want to establish funds markets and labor markets, that some people advocate allowing people to choose their own employment and advocate unemployment insurance, and that some people want to reform the social service and social insurance systems. Their claims also include that some people advocate increasing the pace of pricing reforms, that some people advocate implementing shareholder systems in state-owned enterprises and so on. These questions and ideas were very naturally produced through research into the internal patterns of socialist commodity economy movement and in exploring the various paths on which, in practice, the socialist commodity economy can be developed. What crime is there in discussing these questions and putting forward these ideas? Allegedly, it is the heinous crime of not adhering to socialism and not adhering to the planned economy. It may then be asked: Do we still want to discuss the question of the reform of the ownership structure, the question of forming and improving the market system, the question of pricing reforms and even the question of the overall development of the planned commodity economy and so on? If we are to discuss them, are we first to set down the scope of discussion, and set down which ideas can be discussed and which ideas cannot be discussed? Which genius should make these a priori decisions? Whether it is forbidding discussions or stipulating, in an a priori way, the scope of discussions, the result is the same. That is, it suffocates theoretical and practical exploration of the economic structural reforms. It is not difficult to understand why these comrades who loudly appeal for "control" of economic theory research actually believe that people who advocate the putting forward of new concepts when researching new phenomena and new questions are guilty of belittling existing political economy teaching materials, which is the same as being guilty of the great crime of negating Marxist political economics. It seems as if these geniuses in Marxism know nothing about the combining of theory and practice, which is the quintessence of Marxism. I suppose that if Marx had the fortune to meet these brilliant geniuses, he would be utterly helpless and could only announce, "I am not a Marxist."

What needs to be pointed out is that the point in dispute is certainly not whether one can or should make one's own judgment on those economic theory discussions now going on. Undoubtedly, all comrades can and should make independent judgment on current economic theory discussions and on other people's ideas, and support those ideas which they think are correct. However, the holders of different ideas should openly stand up and participate in discussions and should openly express their views at academic forums and in publications. Also, through seek-truth-from-facts analysis and through fully convincing proof, they should criticize those ideas with which they do not agree. Of course, they should also be prepared to listen to replies from those who have been criticized. That this will require great efforts, genuine talent and scientific investigative research goes without saying. However, only in this way will one be adopting a serious attitude in one's responsibility to the socialist cause. On the other hand, quoting extracts or fragments from other people out of context and inventing charges, making false reports about the situation and trying to use various types of administrative powers to suppress discussion, are not things which economic science workers who are serious about their real responsibilities to the socialist cause will do. Nor will they put up with such actions. It is inevitable that they strongly demand the redressing of these types of unhealthy trends in economic theory work.

We are in the process of carrying out in China, with its population of 1 billion, economic structural reforms and socialist modernization. These are vast economic and social changes within the socialist category, which will be unprecedented in breadth and depth and which will require a protracted period to carry out. There is no successful model which can be used as reference and there is no ready-made conclusion which can be cited. Reform and construction can only progress through exploration, experience can only be accumulated through practice and theory can only be created and developed on the basis of practice. The practice of reform and construction requires theoretical guidance and the exploration of theory needs practice based on reform and construction. If China does not reform, then there will be no way out, and if we do not carry out theoretical and practical exploration into reform, then there will be no way to carry out the reforms. Thus, attacking scientific exploration in economic theory is the same as attacking reform and construction. Theoretical exploration can result in successes but failures are also difficult to avoid. Grasping some mistakes in theoretical exploration and raising them endlessly to higher planes of principle, or criticizing beneficial exploration, which is not even wrong, as "bourgeois liberalization" can only obstruct the road of exploration in economic science. What is now required is braver exploration. This is the demand practice has placed on economic theory workers.

As has been said above, the present situation in our nation's economic theory research is the best since the founding of the PRC, and the vast number of economic theory workers feel very glad about this. However, this is only speaking in terms of a vertical comparison between periods. If we make a horizontal comparison, that is a comparison of the present situation in economic theory work with the demands of reform and construction practice, then we see that economic theory work is still clearly quite weak. This causes all those economic theory workers who have a strong sense of mission and sense of urgency with respect to putting all efforts into promoting the reform of the economic structure and socialist modernization to feel greatly ill at ease.

In the "Report on the Seventh 5-Year Plan" given at the Fourth Session of the Sixth NPC by Premier Zhao Ziyang, it is pointed out: "At present, our economic theory research work lags behind the practice of refrom and construction. This is not beneficial to the making of new summaries of our rich practice. We must continue adhering to the principle of linking theory with practice and encourage, on both the theoretical and practical levels, brave exploration and a new spirit of development." Comrades Zhao Ziyang's assessment of the current situation in economic theory work is extremely perinent. The principle he puts forward of encouraging exploration and the blazing of new trails in economic theory causes us to feel greatly touched.

Brave exploration and the blazing of new trails in economic theory, of course, will depend on the improvement of the structure of the economic theory ranks themselves and the raising of their quality, as well as on the bravery of individual economic theory workers. At the same time, combining this with economic structural reforms and socialist modernization will be of benefit in obtaining a fine environment for academic discussions. The focal point of the whole party's work has, since the 3d Plenum of the 11th CPC Central Committee, shifted to socialist modernization. The guidance for theoretical work must also truly realize, in a way which accords with this, a change in the strategic focal point. That is, it must change form "taking class struggle as the key link" to the new track of encouraging theoretical exploration and innovation, as put forward by Comrade Zhao Ziyang. In the new historical period of reform and construction, the main responsibility in guiding theoretical work should be to be good at keenly discovering new growth points in theoretical research areas, to put all efforts into supporting these, in fostering and guiding them, so that they grow healthily and sturdily and so that they can accord with the needs of reform and construction. What should not be done is what was done during the period of "taking class struggle as the key link" when targets for criticism were sought among the theoretical ranks.

The party Central Committee long ago set down correct guiding principles for theoretical work during the new period. The 3d Plenum of the 11th CPC Central Committee proposed liberating our minds and seeking truth from facts and the 3d Plenum of the 12th CPC Central Committee put forward that "different stands and different theoretical viewpoints on the reform question can be developed and discussed." These ideas are more correct and are more concrete stipulations and a further development, during the new period, of the combination of theory and practice, and the principle of letting a hundred flowers bloom and a hundred schools of thought contend. Since 1979, the developments in our nation's economic theory research have all been achieved under the guidance of this correct principle. Only if this principle is adhered to will economic theory resarch be able to achieve greater development.

At present, we must implement the policy of "encouraging a spirit of brave exploration and innovation in both theory and practice" and change the situation where economic theory research work lags behind practice. The key of this lies in implementing to the letter the guiding principles in theoretical work stipulated by the two third plenums as mentioned above, earnestly developing in an undistorted way, a situation of a hundred schools of thought contending, and creating the necessary conditions so that the great numbers of economic theory workers can really go deep into the practice of reform and construction to conduct investigative research. They should not dodge those objectively existing contradictions, but should be brave in using a Marxist stand, view and methods to creatively research the complicated situation, questions and experiences which are constantly emerging from reform and construction practice, and put forward new summaries in a seek-truth-facts way. Not only should be not censure economic theory workers who persist in proceeding from reality to uncover those contradictions which exist in economic life, but we should encourage them. This is because if we do not thoroughly uncover these contradictions, we will not be able to formulate correct economic policies and reform plans. With respect to those economic theory workers who, by combining theory and practice, put forward new ideas which are different from traditional concepts, we should treat them carefully and seriously, and avoid making rash judgments. We cannot class those ideas which do not agree with the new understandings as "ossified" but much less should we put the cap of "bourgeois liberalization" on those new ideas which are different from traditional ideas. Just because an understanding is new, it does not mean that it is completely correct. It might be right or it might be wrong, or it may even contain both correct and incorrect components. When a new understanding is put forward, people will have different ideas on it. This is natural and thus a completely normal phenomenon. The responsibility of those who guide and organize economic theory work is to adopt appropriate forms so that those comrades who hold different ideas will have the opportunity to express them, to put forward queries with respect to those ideas they do not agree with, and to put forward full facts, materials and proof to explain their ideas, so as to develop debates through which people can be convinced by reasoning. Only if there are different views and their arguments are fully developed will it be possible to compare and differentiate the different ideas, so that the correct ideas mature and are perfected through debate. It will also result in the contradictions and defects of the mistaken and biased views being fully revealed through the debates. Through discussion, there will be no need and no requirement to insist on uniformity. This is because discussion is a phenomena which cannot be avoided in theory research and, in general, it will be of benefit in promoting the further deepening of theory research. More importantly, the correctness or otherwise of theoretical ideas will, in the end, be tested through practice. With respect to various valuable economic theory ideas and appropriate policy stands, we can selectively organize experiments in practice, then gradually sum up experiences and appraise theories. Many economic theory ideas will probably still need the testing of a long period of practice. Thus, in economic theory questions, we should advocate that plentiful exploration and debate be conducted following the development of practice. Only with a free academic environment like this will it be possible to promote the smooth development of Marxist socialist economic theory. Only thus will it be possible to better promote the improvement of our nation's economic theory contingent's intellectual composition, raise their ideological and theoretical qualities and more quickly train a large batch of high-level, skilled economic theory personnel which have both a deep theoretical base and are very familiar with actual economic processes.

Maintaining the scientific spirit and academic freedom of proceeding in everything from reality will not weaken the position of Marxism in economic theory areas, but will in fact consolidate and develop it. The vast number of economic theory workers who are conscious of their own social responsibilities need academic freedom. This is because in an environment of academic freedom, it will be possible to eliminate artificially created apprehensions and prejudices, for the economic theory workers to have a high degree of sense of responsibility and sense of mission with respect to socialist modernization, and for them to be brave in exploring the new problems put forward in practice. In this way, they will truly be able to proceed from reality in everything and tightly link up theory and practice. Tightly linking up theory and practice is the road one must follow in developing Marxist economic theory. Our nation's economic theory contingent is, in general, a contingent which the people can trust and which puts great efforts into struggling for the socialist cause. There is no basis for suspecting that its members are using academic freedom to shake Marxism. This suspicion is, in itself, a manifestation of a nervous weakness showing a lack of trust in Marxism. Of course, there is no need for reticence. If there is academic freedom, not every idea which is put forward can be Marxist and it is impossible to avoid a great mix of ideas in the theoretical field. However, first, whether a theoretical idea is correct and whether it is Marxist can only be tested by the sole standard of practice. Second, with respect to mistaken theoretical ideas, we must adopt an attitude of scientific analysis and distinguish the nature of different mistakes. For example, various biases might result from a complete lack of understanding or an incomplete understanding of the actual economic process. Other mistaken ideas may be due to misunderstandings of Marxist economics. Still other phenomenon such as rigidness may be produced in a way which is difficult to avoid when there is a situation of opening up after being closed off and there is academic freedom, by people not being good at critically assessing the economic theories of various foreign schools. This includes both blind copying and blind rejection. Also, it may occur that some people have absolutely no respect for Marxism, but in our nation's economic theory circles, such people are few. Further, in the criticism of mistakes, we must adopt a fully reasoned attitude based on objective reality. In criticism and counter-criticism which are on a n equal footing we will be able to appropriately uncover the mistakes and the nature of the mistakes and reveal the reasons for the mistakes in theory. The counter-criticism by those who have been criticized may also correct the critics' arguments or various one-sided or inappropriate parts of an argument. As to why we must adopt a scientific, extremely cautious and fully reasonable attitude with respect to mistaken theoretical ideas, it is not only because this is the way to correctly overcome mistaken theoretical ideas, but also because this will be beneficial to safeguarding those ideas which are first criticized as mistaken and subsequently, through the tests of practice, are proved to be correct. Marx and Engels who lived in capitalist societies never and could not use any power to force other people to accept their theories. However, these two people depended on the scientific nature and truthfulness of the Marxism they had established to defeat the various attacks by the theories of the bourgeoisie who ruled capitalist society and the theories of the petit bourgeoisie, and convinced hundreds of millions of people around the world. If we persist in a thoroughly dialectical materialist standpoint, there is no reason to doubt that, in our socialist country with a Marxist party in power, we wil be able to develop Marxist economic theory and expand the Marxist economic theory front by combining theory and practice in an environment of academic freedom.

It should be pointed out in passing that seeing freedom as the patent of capitalism is not a Marxist viewpoint. Only the bourgeoisie parades their capitalist countries as "free countries" to distinguish them from socialist countries. If we say that freedom in the end is "bourgeois liberalization" then should we not perhaps consider, on this extremely serious question of principle, whether or not there is a clear ideological demarcation line between this and the bourgeoisie. Marx and Engels predicted in the "Manifesto of the Communist Party": "In place of the old bourgeois society with its classes and class antagonisms, we shall have an association, in which the free development of each is the condition for the free development of all." [Footnote 1: Marx and Engels "Manifesto of the Communist Party" in "Selected Works of Marx and Engels" Vol 1, p 273] Reviewing these words of Marx and Engels which in the most concise language clearly expresses their basic ideas on future society, will be of great benefit to all those comrades who truly uphold Marxism and uphold scientific socialism.

The economic circles in a modern China which is at a stage of great strategic, economic and social change are facing a wide world where they will be able to develop their talents. The party's policy of "encouraging the new spirit of brave exploration and innovation in theory and in practice" has not reduced and has actually greatly increased the social responsibility of economic circles. Premier Zhao Ziyang in his "Report on the Seventh 5-Year Plan" pointed out: "Philosophical and social science research, and especially economic theory research, must abide by the principle of linking theory with practice, actively use basic Marxist theories to explore and resolve the important questions put forward in reform and construction and make great efforts in enriching and developing Marxism in practice." This is the unshirkable glorious and arduous historical mission of the economic circles in contemporary China. As they face many new situations and new questions which they are not familiar with in the strategic social and economic changes, more and more economic theory workers have realized that in order to change the situation whereby economic theory research work lags behind practice, not only must the overall economic theory ranks be expanded and must the composition be improved, but individuals' intellectual structure also urgently needs renewal and improvement. There needs to be a new study of Marxism, a new study of society and a new study of history. Also, using an attitude of scientific criticism we need to study the various historical and contemporary economic theories and economic trends of thought which have had great influence in the world. At the same time, there is a need to further understand the development trends of modern science and technology as modern technology and modern tools which can be applied in economic research. Over the last few years, batch by batch, young people who wish to promote reform and construction and who are willing to use their own judgment in economic research, have entered the economic theory ranks and have brought a new vigor to economic circles. Of these comrades, many are skilled in study, are diligent in investigation, are brave in exploration and dare to blaze new trails. They display many ideas and great talent. This is a very pleasing phenomenon. Some comrades display an aristocratic and highly critical attitude towards them and are quick to place the cap of "bourgeois liberalization" on them. This is totally intolerable. First, we should support and encourage the spirit of exploration and blazing new trails, and not rebuke them. Second, as they are young people, it is inevitable that in theoretical research they will put forward some immature or even wrong ideas. In this they need to be enthusiastically helped and guided. No matter what, we absolutely cannot, intentionally or otherwise, dampen their drive for investigative research. China needs more Sun Yefangs and needs groups of economists who have Sun Yefang's theoretical courage and, following the progress of the times, who will greatly surpass Sun Yefang. This is where the hopes for Chinese Marxist economic science to see vigorous development lie. It is also where the hopes for success in China's economic structural reforms and socialist modernization lie.

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NATIONAL POLICY AND ISSUES

## JOURNAL DISCUSSES CAPITAL CONSTRUCTION INVESTMENT

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[Article by Chang Yunkun [1603 0061 2492] and Yang Yonglin [2799 3057 2651] of the Shaanxi Teachers' College, written in December 1985: "Effectiveness and Limitations of Using Financial Means to Adjust the Total Investment in China's Capital Construction"]

[Text] Under our country's concrete conditions, adopting a means to control the volume of credit and loans for investment and the volume of money supply cannot effectively control the overly rapid increase in the capital construction funds. Only through the use of coordinated means and doing a comprehensive administrative job can success be attained.

The economic reform of a socialist state is a renewed selection of its economic pattern. In the course of the changeover, due to the lack of perfection of the new form, certain macro-economic management cannot be avoided and the phenomenon of an overly rapid increase in construction funds and consumption funds may appear. The current stage in our country is such and needs to be earnestly examined and a solution sought. At present, those upholding the viewpoint that financial means should be used to carry out macroeconomic adjustment believe that investment in the current stage of our country lacks interest elasticity, possessing only low-interest elasticity, that the role of adjustment of the interest rate is curbed in the macroeconomic regulation and adjustment, and that we should resort to direct control of the volume of credits and loans for investment and its growth rate as the principal means of regulating and adjusting the investment volume. We believe that under the concrete conditions of our country, extrabudgetary investments not derived from credits and/or loans occupy a relatively large proportion, and that purely controlling the volume of credits and loans for investments and its growth rate makes it difficult to attain the objective of effectively controlling the gross volume of investments. Since the interest rate on the portion of extrabudgetary investments has an obvious regulatory role, we should put the direct control of the gross volume of credits and loans and adjusting the interest rate in an equally important position, supplemented at the same time by financial and administrative means. Only by so doing can we effectively regulate the gross volume of investments.

The sources of our country's capital construction investments are threefold: 1) Investments within the state budget (in 1984, financial appropriations were changed to loans); 2) extrabudgetary investments with the nature of a loan; and 3) extrabudgetary investments with a non-loan nature. Following the intensive development of the reform of the economic structure, a clear change has taken place between the ratios respectively occupied by investments within the budget and extrabudgetary investments in the total volume of investments. The ratio of investments within the budget has been reduced yearly, while that of extrabudgetary investments has increased each year. Viewed from the factor of ownership by the whole people alone, in 1980, investments within the state budget occupied a ratio of 62.5 percent out of the total capital construction investment; in 1981 this was reduced to 56.8 percent; in 1982, 49.8 percent; in 1983, 58.2 percent; and in 1984, about 50 percent. During the same period, the ratio of extrabudgetary investments was between 40 to 50 percent. In the extrabudgetary investments, those not derived from loans have occupied a relatively larger portion. Seen from the fixed asset investments under the system of ownership by the whole people, in 1982, investments from self-raised funds and funds not derived from loans accounted for 45.3 percent of the gross amount of investments, while in 1983 the figure was 43.4 percent. Seen from structure of the fixed asset investments of the whole society, in 1983, investments made by units under the system of collective ownership and individuals' investments in building houses amounted to a total of 41.71 billion yuan, equivalent to 70.2 percent of the volume of capital construction investments under the system of ownership by the whole people. This portion of investments was outside the control of the budget (figures are from the 1984 Statistical Yearbook of China). Control of the total volume of credits and loans for investments can only regulate and adjust investments within the budget and extrabudgetary investments derived from loans. It can hardly perform the role of regulation of extrabudgetary investments not derived from loans. Hence, control of the total volume of credits and loans can hardly effectively regulate the whole volume of capital construction investments.

Whether or not adjustment of the interest rate can play a regulatory role over extrabudgetary investments is determined by the extent of influence exercised by the elasticity of the interest on extrabudgetary investments financed by loans as well as the interest rate on extrabudgetary investments not so financed. Under general conditions, when investments lack interest elasticity, adjustment of the interest rate cannot play any regulatory role over investments; when the interest elasticity of investments is relatively high, the gross volume of investments strongly responds to the interest rate. In general, there are two conditions under which investments lack interest elasticity: One of them is the condition of "moving pitfalls" frequently found in a capitalist economic crisis. Under this condition, the interest rate has fallen to the lowest point, but still cannot stir up any decision on investment. The other condition is found in a planned economy structure which is completely and highly centralized, wherein the gross volume of social investments is determined by central planning and the enterprises have no decisionmaking power regarding investments; hence, the interest rate has no effect on investments.

In an integrated market economy, the interest elasticity of investments is in general relatively high, because the demand and supply of funds is not determined by factors outside the market but is regulated by the market interest rate. At present, our country's economy is a planned commodity economy based on the public ownership system, in which extrabudgetary investments do not encounter any "moving pitfalls" due to an economic crisis and there is no centralized and planned policy-making by central authorities. Rather, such investments are determined by the localities and enterprises themselves according to market demand. This portion of investments and investments within the budget differ from each other in the extent of their fluctuations. Investments within the budget have two special features: First, the volume of investments is determined by the state plan and must be carried out; the investments have no interest elasticity. Second, changes in the plan must be submitted to the higher levels for examination and approval and the process is time consuming. These two special features determine that within a stated period the investments do not fluctuate greatly, and that even though there are changes, they are known and can be controlled. On the other hand, the decisionmaking power on extrabudgetary investments is scattered. The regions and the enterprises make the decisions themselves in accordance with the market changes, and hence are subjected to highly fluctuating conditions. The overly rapid increases in capital construction investments in our country from the end of 1984 to the first half of 1985 were principally due to the violent fluctuations of this portion of investments. Since extrabudgetary investments change in accordance with changes in the investment environment and are highly fluctuating in nature, fluctuations in interest rates cannot but produce effects on the decisions regarding this portion of investments.

First, decisionmaking on extrabudgetary investments is determined by the anticipated benefits of the investments. Under the condition of the cost of production, production scale, and prices of product remaining unchanged, the size of the anticipated post-investment benefits is determined by the high or low level of the interest rates on loans. When the loan interest rate is low, the investment benefits are high and the urge for investment is strong; when the loan interest rate is high, the investment benefits are low and the urge for investment is weak. When the interest rate is so high as to offset the investment benefits or convert the benefits to losses, then investment will come to a halt. Only when the interest rate is extremely low and the investment benefits are extremely high will the decision on this portion of investments have no regard for the cost of acquisition of the funds. Following the rise in the interest rate on loans, investment units will reconsider their investment decisions. Hence, this portion of extrabudgetary investments, the decision on which follows market changes, obviously possesses interest elasticity.

Second, in reality, loan interest is a kind of price phenomenon. It manifests the price for the use of a fixed amount of funds for a fixed period of time. When there is a general rise in the prices of various commodities and there is no change in the interest rate, it implies an actual fall in the interest rate. This will continue to generate a stimulatory effect on the extrabudgetary investments which have already shown an overly fast growth rate. In the fourth quarter of 1984, the general index of retail sales commodity prices increased by 4.2 percent over the corresponding period of the preceding year. In 1985, this rising trend was not halted, and at the same time the interest rate on fixed assets investment loans charged by banks in our country remained unchanged. Of the latter, the interest rate on loans for periods of 5 to 10 years was only 3.2 percent. Thus, the rise in commodity prices made the interest rate, which had already tended toward being too low, become even lower, and further widened the disparity between the investment benefits and the cost of procuring funds. Naturally, this forcefully stimulated the demand for extrabudgetary investments and may be considered an important reason for the overly rapid growth in the capital construction investments in our country. The facts also demonstrated that the interest elasticity of extrabudgetary investments is not minimal at all.

Adjustment of the interest rate not only plays a regulatory role on extrabudgetary investments which have relatively high interest elasticity and are financed by loans, but also produces a direct effect on extrabudgetary investments not financed by loans. The sources of funds for investments not financed by bank loans are mainly from self-owned funds and the regions' self-raised funds. This portion of the investing units is actually loaning their own funds to themselves. Hence, their income should include interest on loans and investment benefits in two separate parts. In the event of changes in the interest rates on loans, investors using their self-raised funds will reconsider the quantitative relationship between the three factors of investments' actual benefits, interest on bank deposits, and interest on loans. If the loan interest rate goes up, under the conditions of the income remaining unchanged, the actual investment benefits will tend to be reduced and the motive for investment will likewise be reduced. In the event the disparity between the actual investment benefits and loan interest receipts is smaller than the interest receipts on deposits, then the self-raised funds will in all likelihood be converted into bank deposits. On the other hand, if the interest rate is relatively low, under the conditions of the receipts remaining unchanged, if the disparity between the actual investment benefits and loan interest is larger than the interest on deposits, the motive for investment will grow. Hence, we cannot overlook the effects that the adjustment of the interest rate can have on extrabudgetary investments not financed by loans.

In our opinion, we should resort to directly controlling the gross volume of loans for investments and adjusting the interest rate and consider them as two equally important measures in the control and regulation of the gross volume of social investments. Doing so has the following advantages:

First, it is helpful to balancing the supply and demand of credit and loan funds and curbs the "hunger for investments." Directly controlling the gross volume of credits and loans is in reality directly controlling the gross volume of supply of credit and loan funds. This is not equivalent to controlling the volume of demand for credit and loan funds. Under the conditions of an excessive volume of demand for investments, if we control the gross volume of state credit and loans, the investors' excessive demand for credit and loan funds still remains. For the sake of procuring the funds needed for investment, they will turn to other means of raising and procuring funds such as sceling loans from the populace or from foreign banks. The investment inflation already in existence will continue to be aggravated. If the interest rate is raised, the actual receipts from investment will be changed, the investment motive will be weakened, and the demand for loan funds will be weakened, which will promote balancing of the supply and demand of credit and loan funds.

Second, it is beneficial to promptly and flexibly adjusting and regulating the gross volume of social investments. The direct control of the gross volume of credits and loans relies on the formulation of a credit and loan incoming and outgoing plan and is relatively stable during the period of the plan. Extrabudgetary investments follow the changes in the investment environment, which subjected to rather severe short-term fluctuations. Since it is difficult for the direct control of the gross volume of credits and loans to control and regulate them, they frequently come into conflict with the state's investment plan and need to be promptly adjusted. Adjustment of the interest rate can promptly regulate and affect the demand for extrabudgetary investments. Hence, directly controlling the gross volume of credits and loans for investment and adjusting the interest rate can flexibly adjust the gross volume of social investments.

Third, it is beneficial to guiding the direction of extrabudgetary investments. How to macroeconomically guide the direction of investments carries an important significance in the coordinated development of the whole national economy. Use of the method of directly regulating the distribution ratio of loans to regulate the investment ratios of departments of the national economy and of the regions is of course workable, but to directly regulate the distribution ratios of credit and loan funds among the enterprises is rather difficult. Therefore, after the larger ratios have been determined, use of the method of differential interest rates to concretely guide the directions of the investments of enterprises and individuals is a more flexible and effective method than the use of a unilateral method to control the ratio of investments.

The above has analyzed the effectiveness of using the methods controlling the gross volume of credits and loans for investments and adjusting the interest rate to regulate the gross volume of investments. However, these methods also have definite limitations. At present, the prevalent patterns of investment motives are the following: one of them is the pattern of growing returns. Decision making in investment is principally determined by the anticipated benefits of the investment. Regarding this pattern, the role of financial means is comparatively clear. But in the case of certain projects with relatively large potential benefits, the investors will, disregarding changes in the interest rate, strive first to seek an opportunity for loans. Under such conditions, reactions to the interest rate are not clearcut and the role of the financial means will be affected. The second of them is the pattern of the increment in output value. Decisionmaking on this type of investment principally lies in consideration of the political tasks. It has the objective of doubling and redoubling the output value as the principal basis while the anticipated returns of the investment take a secondary place. This type of investment is principally manifested in the financial investments of the localities. The investors will disregard the investment costs, thus putting the regulation role of financial means under limitations. Hence, we believe that with the present state of our country, aside from the adoption of financial means, it is still necessary to attach importance to the regulation role on the gross volume of social investments played by financial and administrative measures and to carry out the coordination and combination of various means to strengthen the regulation of the gross volume of social investments.

1. Making use of taxation to regulate the scale of extrabudgetary investment: In the gross volume of social investments, extrabudgetary investments are of a fluctuating nature. In particular, regarding those among them not financed by loans, the difficulty of effecting control and regulation is rather great. The state may utilize the taxation lever to strengthen the control and guidance of extrabudgetary investments and impose a construction tax on them, particularly those financed by self-owned funds and self-raised funds. In the event of the prevalent ailment of "investment hunger" and a serious shortage of gross supply, it may impose a "capital construction tax" and adequately raise the tax rates so as to restrict the growth of gross demand for investments. But when investments have fallen off or are insufficient, the tax rates can be greatly reduced, terminating eventually in nil. Prompt adjustment of the tax rate can counter extrabudgetary investments' special feature of a fluctuating nature and thus can effectively regulate this portion of investments.

2. Stepping up planned management and controlling the scale of investments financed by the self-owned and self-raised funds of the localities: Among the extrabudgetary investments, local financial investments occupy a rather large proportion. Financial measures play a rather weak role vis-a-vis this portion of investments. It is necessary to step up administrative and management measures and strictly require local finance to submit for approval their investment projects. The localities should not be allowed to carry out any investment projects. The localities should not be allowed to carry out any investment plans which have not gone through the procedure of the upper-level authorities balancing, examining, and approving the projects. By so doing, we can effectively regulate the portion of extrabudgetary investments which do not respond sensitively to the financial measures.

3. Strengthening the role of rural credit network, promptly absorbing idle civilian funds, and reducing the volume of directly-merged funds: In recent years, there has been a rapid increase in the amount of idle civilian funds in the countryside, which have become an important source for the raising and congregation of funds for extrabudgetary investments. The causes for this situation are: 1) A rapid increase in the income of the peasants; and 2) non-development of the credit enterprise in the rural areas. Hence, it is necessary to set up and perfect the rural credit network, strengthen the work of rural credit cooperatives so as to timely absorb and effectively utilize idle civilian funds and to play the role of controlling and regulating the scale of extrabudgetary investments.

If we can make the various regulatory become coordinated and organically integrated with each other and fully display their functions, we can effectively control and regulate the gross volume of social investments.

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NATIONAL POLICY AND ISSUES

## ALTERNATE OBJECTIVES FOR FINANCIAL POLICY DURING NEW PERIOD

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[Article by Liu Rongcang [0491 3310 3318] of the Finance, Trade, and Material Resources Economic Research Institute of the Academy of Social Sciences of China: "Alternative Objectives for the Financial Policy during the New Period"--written Jan 1986]

[Text] Financial policy, currency policy, and income policy are the three kinds of measures in the endorsement of macroeconomic control, particularly the shift from principally direct control to principally indirect control. This article is intended to express certain tentative views on the problem of alternative objectives for financial policy beneficial to macroeconomic control.

### I. Assessment of the Objectives of Traditional Financial Policy

The objectives of the financial policy in the traditional economic structure are unified receipts and expenditure and an assured supply of financial power. The principal drawback to this pattern lies in the "unifying" and "assuring," that is, in "unifying" all the sources in financial allocation to "assure" the availability of financial power to meet socioeconomic development. In making a detailed analysis of the theoretical and practical basis of this objective for financial policy, it may be found that, on the one hand, it conforms with the pattern of a highly centralized socialist traditional economic management, that is, it has its historical objective necessity, and has certainly played an important role in meeting the need to centralize social financial power to lay a material and technological foundation for our country's socialist economy; on the other hand, it is closely related to our prolonged lopsided understanding of socialist economy, particularly the concepts of the whole society as a "gigantic factory," of the highly centralized unification of receipts and expenditures in financial power and the ensuring of supply as the only road to the enforcement of a socialist planned economy, and of the superior character of the system of public ownership of the means of production. Seen from its drawbacks, this objective of a financial policy of the "supply pattern," which has the basic special features of "unification" and "assurance" and of the method of "everybody eating from the same big pot" in financial supply and use of funds, not only seriously impedes the effective concentration and effective use of social financial power and deters the enterprises from becoming relatively independent commodity producers and operators which internally possess economic motive power and externally are subject to economic pressure, but also exerts immensely adverse effects on the realization of a socialist planned economy and on effective macroeconomic control and the management and regulation of the economy.

First of all, this pattern of an objective for financial policy can very easily bring about an "unlimited urge for expansion" and "thirst for investment" on the part of the enterprises and society as a whole and cause social investment demand to become blindly inflated, thereby frequently leading to an imbalance in the growth of social gross supply and social gross demand, and also endangering macroeconomic control, the basic content of which precisely calls for such a balance between social gross supply and demand.

For a prolonged period of time, due to the investments of state-run enterprises being under the complete charge of state finance, there has existed a problem known as "soft budgetary control," which permits the use of funds without compensation and nonresponsibility for investment results. As a result, this has brought about the phenomena of fighting for targets, for investments, and for equipment, competition among enterprises to expand the scale of their investments, and a deep interest in expanded reproduction by extension. The outcome has been a "zeal for expansion" and "thirst for investment" which, in turn, brought about an inflated demand for investment--literally a chronic and stubborn ailment in socialist economic life. The phenomenon of so-called economic shortages, a special feature under the conditions of the public ownership system, may to a large extent be traced to these causes. On the one hand, a restricting mechanism curbing investment demand and its excessive growth was lacking while, on the other hand, there was strong backing in financial resources and supplies for investments which were secure and unquestionable on account of their features of "guarantee" and "protection." The natural outcome could only be the breeding of a strong zeal for expansion of investment, which, because of the practice of "everybody eating from the same big pot" in the use of funds and the improper mutually competitive trait of seeking quick and high results, was daily aggravated and difficult to suppress.

Second, the traditional financial policy which has the basic special features of unified receipts and expenditures and guarantee of financial supply and the resultant conditions of a passive type of financial allocation and financial supply are the direct causes of the excess-distribution of finance and national income and the over-issuance of banknotes, being thus the important influential factors of the excessive investment and input of capital and funds, the inflation of social demand, and loss of macroeconomic control.

Finance possesses a dynamic role which cannot be underestimated in macroeconomic control and macroeconomic regulation. However, over many years, in the actual practices in our country's economic and financial work, all along there has been a phenomenon of the "planning commission fixing the project and the financial department paying the bill." The functional departments of finance frequently have occupied the position of the "cashier" and "keeper of banknotes." Be it in the planning arrangements for the whole national economy or in decisionmaking on the scale of social investment and on important and big investment projects, finance has basically occupied a position which is after-the-event, passively protecting the money supply, and also passively raising and using financial funds for protection or enforcement of projects. Hence, the so-called themes of national financial strength restricting the investment scale and the so-called balanced budget are frequently an after-the-event restriction and balancing of the passive type. For the sake of maintaining a fixed high economic growth rate and realizing an abnormal scale in capital construction investment, the state's finance cannot help frequently bearing, in its operations, burdens that exceed the limit, or being forced to make allocations that are over-the-limit or excessive. By so doing, it not only loses to a very large extent the restrictive function of financial power but also causes an artificial over-expansion of social demand. Since this kind of above-quota allocation of funds frequently cannot be replenished by other means, the only alternative is to resort to bank overdrafts to make up the deficit, forcing the banks to correspondingly issue more banknotes. By so doing, financial expenditures and the corresponding growth in social demand have become dislocated from the actual growth of national income and financial revenues for a stated period. This endangers the overall balance of finance and credits and loans, funds and material resources and demand and supply, and adversely affects the effective macro-control of the economy.

Furthermore, due to the evils of "unifying" and "guarantee," causing financial measures to lose to a large extent their flexibility in operations and their important functions in economic regulation, the traditional objectives for financial policy cannot effectively control and guide the macroeconomy.

Under socialism, funancial allocation itself, taxation, financial subsidies, and so forth, are all extremely important economic regulation measures. Their employment has an extremely important significance in the macro-adjustment and control of the economy. But the objectives for the financial policy of unified receipts and unified expenses and one-sided protection and guarantee of financial supply precisely go against putting these kinds of regulation roles into full play. This is because on the one hand under the policy of "unifying" and "guarantee," there is no objective need for employing this kind of economic regulation, because if everything is unified and guaranteed, what is the need for further adjustment and regulation? On the other hand, there is definitely no possibility of using financial and economic levers to carry out economic regulation and adjustment, because regardless of whether the expenditure is proper or not and regardless of whether the decision for investment is rational or not, just the same finance has to "guarantee supply" and no ground is left for any alternative or making flexible regulations or adjustments. Actual practice has shown that this pattern of an objective for financial policy not only cannot effectively play the role of carrying out macroeconomic regulation but also serves as an important impediment to the use of other economic regulatory measures (such as the levers of pricing, credit and loans, and so forth).

In addition, in the past, enforcement of the highly centralized, unitary and mandatory type of planned management and the system of unified receipts and expenditures which was out of joint with responsibility, power and benefits rendered the existence of enterprises as being merely the subordinates of administrative organs at various levels, devoid not only of innate economic motive power and the necessary decisionmaking power in production and operation but also of any external economic force of compulsion and an environment for market competition. Under such conditions, the use of macro-financial regulation measures apparently possesses neither any objective necessity nor a corresponding microeconomic basis.

## II. Alternative Objectives for Financial Policy Which Are Beneficial To Macroeconomic Control

Following the intensified progress of the reform of the economic structure and the shift of the economic pattern and economic mechanism from principally direct control to principally indirect control, the objective for our country's financial policy is currently undergoing changes and a strategic track-shifting. For the present and a certain period from now on, the search for objectives for financial policy which are beneficial to macroeconomic control seem to revolve mainly around the following several directions:

1. Objective of a balanced budget for financial policy. Maintenance of a balanced budget that is sustained and stable is the basic starting point and minimum requirement of a socialist financial policy. A financial policy that insists on balancing revenues and expenditures and leaves a little surplus has an extremely important significance in regard both to the coordinated and stable development of the planned commodity economy and to macroeconomic control under the conditions of the reform, opening up, and invigoration of the enterprises.

Hence, viewed from the prolonged financial practices in our country and the realistic requirements for economic development and reform of the economic structure, from now on it is essential to solve, pointedly and well, the following problems:

First, we should rigidly and thoroughly carry outthe principle of the state restricting by financial means the speed of socioeconomic development and the scale of capital construction. On the basis of changing after-event restriction to before-event restriction, we must firmly refrain from undertaking a financial budget that embodies red figures in any form. In particular, in the determination of the state's capital construction investment plan, we should desist from carrying out any red-figure budget for the current year and should also refrain from making any post-investment arrangements of a "de facto" nature and thus enter into "excess-load" operations. We must strive to treat equally, and make a comprehensive balance of, the short-term investment plan and the long-term and medium-term investment plans, through integrating them. Simultaneously with the gradual formulation of a healthy "state investment law," we should endow the financial functional departments with veto power over red-figure budgets and overly large investment programs, thus basically rectifying the status of the state's financial departments being merely "cashier" departments and "banknote receiving departments" and their condition of passively protecting and guaranteeing the supply of financial power.

Second, we should abolish and forbid financial departments from using the method of making unconditional overdrafts from banks to meet deficits. This will avoid finance from making excess allocations and the issuance of banknotes purely for a financial purpose, block the road of retreat of unbalanced budgets, and prevent the abnormal expansion of social demand and the loss of macroeconomic control arising therefrom. In other words, we should take the "dual" lanes of effecting a balanced budget and normalizing banknote issuance to facilitate and strengthen effective control of the macroeconomy.

Third, we should adopt effective measures to gradually overcome the phenomenon of "soft budgetary restrictions" which has long existed in financial revenues and expenditures and, by means of "hardening" the budget provisions, to facilitate and ensure the balancing of financial revenues and expenditures and prevent the growth of financial deficits of the "punishing" type. According to past conditions, it is particularly necessary, on the basis of establishing a healthy state budgetary law, to prevent the interference, wrecking, and pounding of budget balance from top officers' wishes, "top officer's projects," and top officer's approval of random schemes, verbal promises, and orders and directives.

Naturally, through the 7 years' reform, the structure of the social funds and the sources of investments in our country have displayed a tendency of dispersion and of having many channels and levels. In particular, the growth of extra-budget funds and credit and loan funds of banks has been especially rapid. The balancing of financial revenues and expenditures itself does not necessarily indicate, and cannot completely influence, the balancing of social funds. Nevertheless, under the conditions of the system of public ownership of the means of production and a planned commodity economy, and with financial funds serving as important financial sources directly grasped in the hands of the state, principally used on social basic facilities and major construction projects of the state, and serving as the financial basis for realizing and developing the socialist planned economy, whether such funds have been used well or not only exercises extremely great influence and restrictions on the operations of other social funds, on the social investment environment, and on the external conditions of the production and operations of the enterprises but is also deeply related to the formation of the basic proportionate relationships of the national economy and their changes or readjustment. Financial balance itself not only is the foundation for the overall balancing of finance with credit and loans and foreign exchange but also exerts an extremely important influence on the balancing of the latter two sectors themselves.

In short, both in theory and practice it has been repeatedly shown that in order to realize the overall balance of the national economy, particularly a balance in the price sector, and strengthen and improve macroeconomic control, it is essential that a balanced budget must be taken as the primary objective for the financial policy of our country.

2. Regulation objectives for policies on financial allocation, financial tactics, and financial operations.

Over many years, the provision or supply type of finance, in coordination with the role of the supply system of credits and loans, has nearly completely negated the regulation functions of socialist finance over socioeconomic life. Precisely because of this, under the conditions of liberalizing and invigorating the microeconomy and vigorously developing urban and rural socialist commodity economy, it appears most urgent and extremely important to attach great importance to the objective of regulation of financial policy. This meets the need for strengthening macroeconomic control and also the need, under the new conditions, for fully displaying the functions of socialist finance. Hence, in accordance with the actual conditions in the past and at present, it seems that we should attach great importance to studying for the realization of the following three changes:

First of all, we must bring about a change from the past type of finance, which merely provided funds to a type of finance that takes in operations and management. If such a change is not realized, it will not be possible to earnestly study and correctly handle the economic interest relationships of various sides in the new era. Nor will it be possible to devote efforts to strengthening the enterprises' vitality and enhancing the socioeconomic effects or to gradually learn the socialist way of handling finance including making, accumulating, and using money or also learn how to gradually strengthen the capacity of operation and management in the process of raising, allocating, and using funds, or consciously follow and apply the law of value and fully utilize various kinds of economic levers and financial tactics so as to effectively control, influence, and regulate macroeconomic operations. If it is said that in the past, finance frequently and in a passive way raised and allocated funds according to the designations of a fixed program or "plate" and to a large extent lacked the initiative to do any regulation or adjusting work, then from now on it should energetically display its functions of restricting, intervening in, and supervising socioeconomic development. In particular, it should transform its guiding ideas and, starting from the angle of operation and management and through implementing an effective financial policy, on the one hand handle well and use well the limited financial power of the state and, on the other hand, employ various special financial means such as taxation, financial subsidies, and diversified forms of state credit to influence, regulate, and adjust the workings of the national economy.

Second, in handling the distribution relations between the state and the enterprises we must bring about a change in policy from unified receipts and unified expenses and the state being solely responsible for all profits and losses to liberalization, invigoration, and continual strengthening of the enterprises' vitality. Basically speaking, the relations between the state and state-owned enterprises follow the line of fund and asset relations and the interest distribution relations based thereon. Therefore, whether an enterprise, on the basis of the integration of responsibility, power, and benefit, can possess a powerful internal economic motive force, brisk life power and vitality, or the capacity for self-transformation and self-development, and whether it can truly become a relatively independent and autonomous commodity producer and enterpreneur that is also solely responsible for its own profits and losses are to a large extent determined by the state and the enterprise correctly handling their economic relations and material interest relations. If it is said that the past, financial structure and its policy of advocating unified receipts and expenditures and the state being solely responsible for all profits and losses impede and strangle the display of enthusiasm, initiative, and creativeness, then, now, and from now on, an important objective for the state's financial policy in the new situation should comprehend the following: How to further correctly handle the distribution relations between the state and the enterprise so that while the state's financial revenue receipts can be effectively enhanced, the enterprise's vitality can continuously be invigorated, how to break the practice of "everybody eating from the same big pot" in the use of funds, to correctly handle the relations with regard to supply of funds and assets between the state and the enterprise, and simultaneously with gradually solving the problem of "soft budgetary restrictions," to promote and facilitate and effective use of state funds and assets, and how to determine the enterprise's power of making investments, scope of investments, and the relative enterprise's level of profit retention, so that it is beneficial to macroeconomic control and able to make the enterprises continuously tap their internal potentials and able to carry out their own self-development and self-transformation.

Third, we must realize the policy change from attaching importance simply to the use of financial funds inside the budget to attaching importance to and guiding the overall utilization of the social gross financial power. At present, our country's social gross financial power includes not only the financial funds inside the budget and the credit and loan funds of the banks but also the daily increasing and voluminous extra-budget funds, the imported and utilized foreign funds, funds derived from social raising of funds by diversified forms, and from aggregations in fund-merging relationships. The state of the input and movements of social gross funds exerts an important influence on the growth of social gross demand and is therefore an important content of macroeconomic control. Nevertheless, in the past and at present, we have confined our attention to planned arrangements for financial funds within the budget, exceedingly neglecting the unified planning and comprehensive use of the social gross financial power and social gross funds. As a result, the phenomena of "extra-budget" elbowing out "inside-budget" and extra budget tapping the inside of the budget frequently occurred, thereby bringing about in the movements loss of control and maladjustment of a punishing and pressing nature. This is damaging to effective control of the macroeconomy.

This being the case, how is it possible to display the regulating role of financial funds vis-a-vis other social funds? Seen from the current conditions, I believe that first of all it is necessary to put the role of the diversified forms of credit of the state into full play, particularly, to enforce the method of integrating various forms of the state raising funds with the state participating in fund-raising projects, so as to achieve the purposes of the state actively participating in and regulating the raising and utilization of funds. For example, on the one hand, with regard to the problem of the state directly raising funds, the existing unilateral form of issuance of treasury notes should be changed to issuance of state debentures in various forms, for diversified purposes, and for long-term or short-term durations, such as special project construction bonds (specially related to a certain large construction project), educational bonds, science and technology development bonds, and short-term state debentures for specially designated purposes; on the other hand, with regard to certain large-scale social fundraising activities (such as regions and departments building local railways, highways, ports, and harbors and other undertakings by means of the social raising of funds), we can selectively adopt the method of the states participation, to achieve the purposes of the state supporting and regulating the raising and utilization of social funds. Next, we should flexibly use the economic levers such as taxation, financial subsidies, and so forth to carry out active guidance of the operations of the social funds. For example, regarding fundraising projects encouraged by the state or in compliance with urgent social needs, they may be endowed with the privileges of tax reduction or exemption and measures like providing financial help or the state undertaking to pay the interest payments, so as to effectively smooth out and guide the flow of social funds.

### 3. Objective for the starting point and end result of financial effects.

Economic effects are the starting point and end result of all economic activities and economic policies. Selection of the objective for a financial policy is no exception. Under the conditions of a socialist planned commodity economy, aside from actively opening up financial sources, building up financial power, and well organizing financial revenues, only through closely comparing the "expense and effect" on the financial side—that is, studying the problem of financial effects--can we effectively shift, not only finance itself, but also the whole national economy, to the track of taking the improvement of the socioeconomic effects as the centre. In accordance with our country's prolonged financial practices, from now on it is particularly necessary to make a fundamental change in the guiding ideology for arrangement of the financial plan and for the policy of financial expenditures. There must be liberation from the past state of one-sidedly "ensuring" expenditures and "being wholly responsible" for expenditures. We must accomplish the objective of taking need as the basis or criterion for weighing what is important and what is urgent. We must take the guarantee of improving financial effects as the centre to plan and restrict financial expenditures and to guide and control the demands for state financial funds, to the end that financial functional departments may change from passively supplying funds to using funds with initiative and efficiency. Only through directly liaising between an enterprise unit's "expenses" incurred for finance and its own "income" and the "income" of state finance and truly letting it strive for the material interests of the unit and its staff members and workers, can we fully arouse the enterprise unit's enthusiasm for increasing its income and practicing economy in expense, enable it to possess an innate economic motive power, and able to take up responsibilities. This can then ensure that the state's financial revenues will follow the increase in expenditures and in the volume of its input and attain stable growth. At the same time, it can make the material interests of the spending unit and its staff members and workers rise in conformity with the high or low economic benefits and with whether economy has been practiced in the expense outlay. Simultaneously, in making the concrete arrangements for financial expenditures, it is necessary to treat the anticipated financial effects as the important basis for formulating and fixing the plan for financial expenditures. This will break through the old "base figure" method--that is, the former customary procedure of taking actual expenditure figures as a basis for arranging the new plan for expenditures. When assessing and checking the financial expenditures, it is necessary to compare the anticipated financial effects with the actual financial effects and take it as an important content for assessment and checking. Good results will be rewarded while poor results will be punished. Reward and punishment should be fair and stress must be laid on the actual results. By so doing, it will be possible to effectively overcome and restrict the inflation in the demand for financial investment and operations, to functionally control the unlimited growth of expenditures, avoid building blindly, producing blindly, using financial funds randomly, thereby facilitating and ensuring the realization of the objective for financial effects under the conditions of practicing economy in expenses and effecting an increase in revenues.

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NATIONAL POLICY AND ISSUES

## ECONOMIC JOURNAL DISCUSSES PRICE REFORM

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[Article by Chen Hongobo [7115 3163 0590] of the Urban Economic Management Department of the Huazhong Normal University: "Evaluation of the Price Reform During the Past 7 Years and Suggestions for the Price Reform During the Seventh 5-Year Plan"--written in February 1986]

[Text] I. Evaluation of the Price Reform During the Past 7 Years

Our price reform has been going on for 7 years. A great deal of experience has been gained. No matter how the reform develops in the future, it is necessary to review the price reform over the past 7 years. This article is not a systematic review; it only puts forth several ideas for consideration.

From 1979 to the end of 1984, China launched "seven major campaign's in price reform. These campaigns are the raising of the state purchase prices of agricultural products and the urban selling prices of eight categories of nonstaple foods and the products made from them; the raising of the price of coal; the raising of fares for rail freight and passenger transport by boat; and the readjustment of the prices of cotton fabrics, synthetic fibers, tobacco and alcoholic drinks, and watches. Consequently, the serious problem of irrationality of our price system began to be alleviated. In the case of the price management system, the rigid system whereby the state alone determines prices has been shaken off. Many forms of pricing have been introduced; for example, centralized pricing by the state, floating prices, freely determined prices, and so on. Price management powers have been gradually assigned to lower levels. The path of reform whereby decontrol is integrated with readjustment has been created. These reform measures have enormously promoted our national economic development and have led to the accumulation of a great deal of experience useful to the in-depth development of our price reform.

With the shifting of the focus of our economic system reform from the countryside to the cities, the task of price reform has become more pressing. In 1985, our price reform was formally launched. Under the guiding principle of integrating decontrol with readjustment and advancing in cautious steps, the state purchase price of live pigs and the selling price of pork were decontrolled; the rural purchase and selling prices of grain were readjusted; fares for short-range transportation by rail were raised; in the case of some means of production, price differentials, relative prices, and ex-factory prices were readjusted; and there was the abolition of the regulation which stipulated that that portion of the industrial means of production which the enterprises concerned produced in excess of production targets and which they sold on their own cannot be priced above a level 20 percent higher than the prices set by the state. Moreover, various big and medium-sized cities have successively decontrolled the prices of vegetables and aquatic products. With the introduction of these reform measures, aside from those prices stipulated in state contracts concerning orders for purchases, the prices of agricultural products have basically been decontrolled; among manufactured consumer goods, all small commodities have had their prices decontrolled; and enterprises have been allowed to set prices for their unplanned output of industrial means of production. With the introduction of the "double-track system" of pricing in 1984, the scope within which the market mechanism plays its role in price determination has widened.

We should fully acknowledge the enormous positive social effects of the price reform. Decontrolling the prices of agricultural products has strongly promoted the development of agricultural production and the restucturing of rural production. Reform in the pricing of manufactured consumer goods has stimulated output growth, so that market demand is more satisfactorily met. The "double-track system" of pricing industrial means of production is also playing a positive role. Because the reform in the pricing of the means of production directly affects the enterprises' economic results, the enterprises' business activities begin to be constrained by the market mechanism and their adaptability has strengthened. From the consumers' viewpoint, the price reform can undoubtedly help alter their conception of persistently stable and low prices and help eliminate their fear of price rises, so that they can gradually adapt themselves to the commodity economy. Perhaps this is the most important social effect of our price reform.

However, we cannot ignore the negative social effects of the price reform. At lease the several problems associated with the price reform of 1985, as discussed below, can be observed. First, the price reform is governed by the guiding principle of pausing at every small step to study its effects, like crossing a river by feeling the stones studding it. Although this method has the advantage of relative steadiness and will not cause fluctuations for the economy, as a whole it shows that we lack adequate preparation in the aspects of theory, practice, and social mentality in carrying out our reform, that we lack an overall reform program with price reform as its center, that various reforms cannot fit well to form a complete system, that we have a poor understanding of the economic setting in which we carry out our price reform, that we have not fully foreseen the repercussions of the price reform, and that we have not had countermeasures embodying good foresight. Consequently, the price reform was rashly carried out, without any assistance. If the price reform is incompatible with the wage reform, if the lag in wage compensation is relatively long, or if after decontrolling the urban prices of nonstaple foods these prices generally rise and remain persistently high, then the state can only grant more special subsidies while the existing subsidies are not cancelled, so that the amount of subsidies increases, contrary to the aim of the price reform, and the masses feel that the subsidies cannot cover the comparatively bigger price rises. There will be much discontent. This pressure forces the enterprises to retain profits by various excuses and to distribute a larger amount of bonuses and material rewards to workers. This is a factor fuelling the expansion of consumption funds. Second, a relatively elastic economic setting and some effective means of macroeconomic readjustment and control are lacking. The price reform of 1985 was a relatively large-scale undertaking, but the economic background was that since the fourth quarter of 1984, both investment and consumption funds had been expanding simultaneously, overdistribution of national income had been occurring, and the abnormal issue of currency had increased, with the total quantity of money getting out of control. Consequently, structural price rises were interwoven with inflationary price rises, causing relative big rises in market prices. Moreover, the change in our economic model caused the dispersal of financial resources, the decentralization of the power over investment, and the strengthening of the role of price signals, so that the enterprises began to gear their action to short term or ultra-short term interests; but in that period of system change, the state's macroeconomic control ability was relatively weak and its means of indirect control ability was relatively weak and its means of indirect control were far from perfect. Thus, how to use the market mechanism was yet a new task. Before the problems concerning soft budgetary restraints were solved, a new problem of softening of restraints by banks arose. This made it difficult to achieve equilibrium in aggregate quantities through macroeconomic readjustment, so that inflationary price rises could not be easily and effectively checked. The series of restrictive measures adopted in 1985 were actually administrative measures which conflicted with the aim of the reform and thus were not permanent good measures. Third, although the "double-track system" of pricing the means of production has reduced the discrepancy between the demand for and supply of certain products in short supply, it has also produced some negative effects which must not be ignored. In 1985 the prices of the unplanned output of the means of production rose rapidly, causing general increases in the costs of products of the processing industries and hence increases in the prices of the products of the machine-building industry and light industries. Owing to the overly large discrepancies between list prices and market prices, the enterprises have strived for lower planned targets for output and sales but higher planned targets for distribution, so that the link of circulation has become the breeding ground for various kinds of improper practices. One of the objectives of the "double-track system" of pricing is to further invigorate the large and medium-sized enterprises. Actually, the large enterprises are basically fettered by planning, but the vast numbers of small enterprises, subject to a lesser degree of restraint by planning, can reap large profits despite their backward production technology and operational standards. The results has been the anomalous phenomenon of "low prices for high quality products" and "high prices for poor quality ones." Moreover, the unit magnitude of investment diminishes, seriously discouraging the development of economies of scale and causing the waste of valuable resources. Fourth, since the hefty rise in the state purchase prices of grain, grain is no longer underpriced as it was during many years in the past and the increase in grain output has been greatly promoted. However, since grain prices were raised, the prices of various industrial crops and agricultural and sideline products have also risen, so that grain prices are again at the bottom level. If the relative prices of agricultural products are not further readjusted, the further development of grain production will inevitably be adversely affected. Fifth, with the decontrolling of the prices of nonstaple foods in the cities, the state-run commercial enterprises are required to actively participate in regulation by market mechanism, to absorb and release goods and materials as necessary in order to stabilize market prices. However, being restrained in many ways, these enterprises have weaker competitive ability and cannot very satisfactorily play their role as the dominant channel.

Price reform is a new thing for us and problems associated with it are inevitable. The question is how we should view them and what corresponding countermeasures can be adopted. Faced with those problems, we can have two alternative sets of viewpoints and choices: First, we can think that the price reform is a complete failure, and in order to prevent further rises in prices, we can completely halt the price reform or restore direct state control over prices; second, we can think that despite the relatively high cost of our price reform, bringing flexibility to the formerly rigid pricing system and ending the longstanding situation of depressed prices constitute an important step toward success in price reform, and we should conscientiously review experience and opportunely push our price reform forward. I think only the latter can be the correct choice. Practice reminds us that the price reform must proceed. What we need is more adequate preparation in the areas of theory and social mentality, the close coordination of various reform measures, the symbiotic integration of macroeconomic measures with microeconomic measures and of planning with the market mechanism, and, in particular, the perfecting of the market mechanism and the strengthening of means of indirect control.

## II. Evaluation of the Target Model of Price Reform

Regarding the target model of price reform, people have increasingly more fully understood, thorugh theoretical study and the practice of reform, that it will be impractible to try to rely on some kind of central social agency to provide guidance for the overall price reform by duplicating prices through calculation using modern calculating instruments and teaching models. Under the condition of prices being seriously distorted, the data used in calculation are naturally extremely unreliable. Even if we did possess scientifically more reliable data, the theoretical prices obtained through calculation would considerably deviate from the actual movement of prices, whether they are based on value or some converted form of value. Theoretical prices that are compatible with value or some converted form of value amount to some theoretical abstraction, while the prices in real economic life are formed in the market during the process of exchange through the interaction of a series of economic mechanisms. Nevertheless, I am not negating the need for calculating theoretical prices. Calculating theoretical prices on the basis of the total amount of socially necessary labor contained in certain categories of commodities is a useful attempt to calcualte the magnitude of value in commodities. Using the repeated substitution method to calculate the absolute labor consumption according to the input-output model can undoubtedly yield an approximate of the whole materialized-labor consumption and living-labor consumption in the production of products. Therefore, it is necessary to calculate theoretical prices in view of the need for analyzing the basis of price formation. Used for correcting data, theoretical prices can help us evaluate projects, compare results, and draw up plans, and can be used to stimulate the formulation of price reform policies and to measure the effects of price changes. Thus, theoretical prices can be used as an indicator of the extent to which prices deviate from value during a certain period and a reference system useful in formulating pricing policies. However, we must confine the role of theoretical prices to the scope of value and must not use them to duplicate prices in actual movement, because many exogenous variables cannot be accommodated even in the most perfect price models. The basis for choosing the target model for price reform should be the examination of the actual process and mechanism of price formation.

On the other hand, there are shortcomings in advocating equilibrium prices. Theoretically speaking, equilibrium price is an abstract phenomenon. Ignoring explanations in bourgeois economics, it actually belongs to the category of value. Determined by the equilibrium point on the demand and supply curves, the equilibrium price can only exist at a given point in time. It resembles value, the axis around which price moves, or a converted form of value, and it can also be viewed as an average during a given time period. In economic reality, demand and supply are rarely in equilibrium, and market price often deviates from the equilibrium price. Therefore, equilibrium price is also an ex-post description, rather than a direct manifestation, of price movement. In economic reality, the attainment of equilibrium price entails a market condition of free competition, but in China a perfectly competitive market, and hence the necessary setting for the attainment of equilibrium price, does not exist. Moreover, the perfectly competitive market is not a goal for China's planned commodity economy. Market price is spontaneously formed through the functioning of the demand-supply mechanism and is blindly regulated by an "invisible hand." This necessary involves a waste of resources and the destruction of social productive forces, with the attainment of macroeconomic goals entailing a tortuous and turbulent process. Obviously, this is not a path we should choose.

In studying the target model of price reform, we should proceed from the basic characteristics of China's economic system model and the principal tasks of its system reform. Ours is a planned commodity economy. Although the principles and mechanism of operation of this economic model have not been fully manifested, at least its basic framework is clearly understood. The basic characteristic of this economic model is the high degree of symbiotic integration of the planning mechanism with the market mechanism. It differs from both the traditional planned economy model characterized by a high degree of centralization and the market economy model with the market predominating. Neither is it a jigsaw-like combination of the planning mechanism and the market mechanism. It embodies the interweaving of the planning mechanism and the market mechanism, the symbiotic integration of regulation by planning based on the market mechanism, with regulation by market mechanism under the guidance of the planning mechanism. The target model of price reform must be compatible with the basic characteristics of this economic model. Because this model is a sublation of the traditional one which rejects the market mechanism, introducing the market mechanism and extending its role constitute the principal task in our reform. I think we should opt for the coexistence of flexible planned prices and planned market prices to suit the planned commodity economy model and also take planned market prices as the principal form of the target model of price reform.

A central link and principal task in our economic system reform is the invigoration of our enterprises, particularly large and medium-sized ones under ownership by all people, genuinely turning them into relatively independent units which produce or deal in commodities, which operate on their own, and which assume sole responsibility for profits and losses. To genuinely invigorate the enterprises, not only must the enterprises be given every category of power appropriate to a unit producing or dealing in commodities, with their responsibility also correspondingly clearly defined, but, and this amounts to a very important link, the condition of existence of competition external to the enterprises must be created, so that the enterprises' production and operation activities external to the enterprises depends on the perfecting of the market system. For another thing, further invigorating the enterprises and strengthening macroeconomic control requires that the principal mode of enterprise management must undergo a change from direct state control to indirect state control and that the principal means of control must be economic means, though there are legal means and some necessary administrative means. This will inevitably call for the strengthening of the role of the market mechanism and perfecting of the market system. A number of conditions are necessary for the perfecting of the socialist market system. The principal one is that the price system must be rationalized and a good signal system must be established, so that the price system can quickly, accurately, and sensitively reflect market conditions. The building of this good price signal system and the normal functioning of the role of price in turn depend on the perfecting of the market system where the price system functions. Before the price system is rationalized, the market system can hardly become perfect. This will restrict the functioning of the role of price, so that new distortions may occur in those prices which have already been rationalized. Such is the inextricable interweaving of problems.

Owing to the viewpoints above, I hold that the principal aim of the price reform is not to design a theoretical model used by the state to set prices, but is to create and perfect a working mechanism of, and the necessary setting for, price movement, so that under the functioning of this mechanism and the influence of this setting, market price can move according to its own laws of movement and can have self-regulating functions. The state can bring price movement in line with macroeconomic goals by controlling the price formation mechanism and transforming the economic setting. This actually gives rise to two tasks in our price reform and economic system reform: First, we must promptly perfect the socialist market system where the market mechanism functions; and second, we must promptly perfect the means of indirect macroeconomic control which is effected through various economic levers. Price is formed through the interaction of the planning mechanism and the market mechanism. This basic characteristic distinguishes the system of pricing with planning from price setting by the state with the help of certain theoretical models and distinguishes it from the spontaneous formation of market prices. The prefecting of the market mechanism and the means of indirect macroeconomic control is the primary condition necessary for the building and normal functioning of this pricing system. The market mechanism functions under the guidance of planning, while regulation by planning is based on the functioning of the market mechanism. The two things supplement each other and merge to form a single system.

According to the model of market pricing with planning, centralized pricing by the state will be reduced to the minimum scope that is necessary, such as the pricing of rail transport, postal and communications services, and some other services. Moreover, centralized pricing does not imply fixed prices, but involves flexible planned prices based on the law of value. In the case of the overwhelming majority of products, the power of setting prices is assigned to the enterprises, with the functioning of the market mechanism directly determining their market prices. This system of market pricing with planning is directly linked to the market and can thus sensitively reflect market changes and opportunely transmit market information to the enterprises. In using price as a lever, the state will no longer adopt the method of artificially making price deviate from value, but will use various means of indirect control to affect price changes so that it can transmit the intent of its plans to the enterprises through price signals, thus guiding the enterprises' production and operation activities onto the track of state planning.

## III. Tentative Suggestions About Price Reform During the Seventh 5-Year Plan

The Seventh 5-Year Plan period is a crucial one in China's economic system reform. The advance of various categories of reform calls for new developments in price reform. Currently, however, it is difficult to make big advances in price reform owing to the limitations of various economic conditions such as our macroeconomic control capability, the extent of development of market organizations, the situation of demand and supply, society's ability to cope with changes, and disequilibrium in aggregates. Faced with this problem, we should objectively assess the economic situation and cautiously decide on the tasks and steps of price reform during the Seventh 5-Year Plan period.

I think the dangers and possible repercussions of disequilibrium in aggregates should be appropriately assessed. However, this problem must not inhibit the development of price reform. It is only in the course of reform that certain problems can be solved, like the perfecting of the market system and means of indirect control, the blending of various categories of reform to form a complete system, the stimulation of increase in the supply of products in short supply, the perfecting of the "double-track system" of pricing the means of production, and so on. Therefore, we must bring about substantial achievements in price reform during the Seventh 5-Year Plan period and set goals for reform in this period compatible with the overall target model of price reform. Here I will put forth several suggestions for discussion:

First, during the earlier part of the Seventh 5-Year Plan period, particularly in 1986, the focus of work should be consolidating and stabilizing the price reform measures that began in 1985, solving the problems created by the price reform of 1985, analyzing the main experience of the price reform over the past 7 years, and on this basis vigorously grasping the design of a program of overall reform with price reform as the core and making adequate preparations in the area of theory and social mentality for further advances in price reform. The experience of the price reform over the past 7 years has fully demonstrated that price reform, as an enormous social engineering project, cannot be undertaken solely by the goods and materials departments. It needs the close cooperation of various quarters of society and various reform measures. In the past, various categories of reform have been incompatible with each other and segregated. Now this situation must end. The formulation of the price reform program must be led by the State Council and undertaken mainly by the goods and materials departments, with the participation of the commissions, offices, departments, and bureaus in charge of finance, banking, wages, planning statistics, and various specialized sectors. Aside from containing detailed stipulations about implementing the tasks and steps of reform, the program must contain an appropriate assessment of the possible consequences of price reform and provide corresponding countermeasures. The completed reform program must be fully discussed by the masses and can be implemented only after repeated feedback collection and revisions. Propaganda about price reform must be strengthened by various methods and the necessity of price reform must be explained to the masses, so that people's fear of price rises can be gradually eliminated and the broad masses can become the main force in price reform and pricing supervision. Thus, possible problems in price reform will involve lower costs in terms of social mentality effects. This work is of crucial importance to the success of our price reform.

Second, the overall guiding principle for price reform in the Seventh 5-Year Plan period should continue to be the integration of decontrol with readjustment, with cautious steps being taken in advancing. Those products marked by a considerable discrepancy between demand and supply should mainly be subjected to readjustment. In the case of some other categories of products, demand and supply are roughly in equilibrium, or discrepancy between demand and supply has diminished. The prices of an entire category of such a product may be fully decontrolled, or the proportion of decontrolled prices in a category can be appropriately enlarged, as warranted by the specific circumstances. Correspondingly, in various cases, the scale of readjustment or decontrol may be small, may be of medium magnitude, may develop to a medium magnitude as small changes accumulate, or may become large as medium magnitude changes accumulate. The shocks of the reform should be spread out over a number of years. The general principle is that the annual rise in social retail prices must surely not exceed 5 or 6 percent. The price management powers of localities and departments must be appropriately increased and the past method whereby the state exercises centralized control or applies its policies from the highest to the lowest levels must be changed so that certain reform measures can be moderated in some regions between the microeconomic arena and the macroeconomic arena and so the pressure for macroeconomic control is reduced. Some local markets can be appropriately opened, so that for certain products, partial equilibrium can gradually develop into overall equilibrium.

Third, concerning the form of pricing, the structure whereby centralized pricing by the state, floating prices, and freely determined prices coexist will continue to exist. As reform proceeds, the scope of centralized pricing by the state must be gradually reduced and the scope of free pricing must be extended. Floating prices as an intermediate form between planned prices and freely determined prices should be the principal form of pricing. All this should be done in preparation for a transition to market pricing with planning.

Fourth, reform in the pricing of the means of production should be the focus of the price reform of the Seventh 5-Year Plan period. Thus, urgent needs arising in the "bottleneck" links of our economic development can be appropriately eased, a foundation can be laid for the full-scale rationalization of the price system, and the control of market price fluctuations can be improved. The "double-track system" of pricing the means of production, which will continue to exist, is merely a special thing created under some specific economic conditions. It cannot be completely negated in theory, but its role should not be exaggerated. The principal measure effective for solving the existing problems associated with the current "double-track system" of pricing is as follows: For the currently seriously underpriced planned output of energy resources, transport and communications services, materials, and raw materials, prices should be raised in stages and category by category. The proportion of unplanned prices should be increased step by step and with planning. The extent of decontrol must be limited by the enterprises' ability to absorb and digest the changes, so that most of the price rises cannot be passed onto consumers of their products. Supply must be vigorously increased amid the interaction of readjustment and decontrol and differentials between planned prices and unplanned prices must be gradually reduced. This is done in preparation for a transition to a single-track system of pricing. Moreover, the prices of agricultural products must be further readjusted. In the later part of the Seventh 5-Year Plan period, the prices of consumer goods must be rationalized, so that the problem of inversion between state purchase prices and selling prices and the problem of fiscal subsidies can be solved.

Fifth, various categories of reform must be coordinated so as to create a good setting for price reform. In the earlier part of the Seventh 5-Year Plan period, the focus of work should be vigorously perfecting the indirect means of control, strengthening macroeconomic control capability, maintaining an appropriate extent of economic growth, roughly maintaining equilibrium between aggregate social demand and supply, controlling the quantity of money issued, imposing more rigid budgetary restraints on enterprises, and quickening the formulation and implementation of relevant economic laws and regulations. It should be particularly stressed here that the reform of the banking system must be quickened. Banks should be run like ordinary enterprises, various restrictions imposed by administrative bodies on banks must be removed, and banks must have a stronger ability to impose restraints. Thus, banks can become the main force in investment, playing a more powerful role in directing the flow of funds and controlling the expansion of investment, and they can become an effective lever by which the state exercises indirect macroeconomic control.

Sixth, an expansion of the role of the market mechanism is a trend in price reform. As mentioned above, developing the role of the market mechanism and effectively restraining the enterprises' action depend on the perfecting of the market system. Therefore, during the Seventh 5-Year Plan period, the building and perfecting of the socialist market system must be quickened. Of crucial importance is the further opening of three major markets: The product, capital funds, and labor markets. Regarding the product market, we should fully know the structural problems in China's consumer goods market. At present, because changes in the pattern of supply of consumer goods lag behind changes in the pattern of demand, a large amount of money has precipitated, that is, many people are saving or holding money for future purchases. For one thing, by means of price reform, we should provide correct price signals to guide the readjustment of the production structure and product pattern and to rationalize the mechanism of demand for and supply of consumer goods, so that the large balance of outstanding social purchasing power can be used in actual purchases. For another thing, in combination with the reform of the wage system, we should extend the range of income and create a more extensive hierarchy of consumption, thus lessening the pressure on the market caused by overconcentration of consumption demand. At present the market of the means of production should not be opened to an excessive extent owing to the considerable shortages. However, conditions must be created, in coordination with the practice of the "double-track system" of pricing, for the further opening of the market, and a smooth flow in the circulation channels must be facilitated, so that enterprises can have a wider range of choice. Regarding the capital funds market, we should fully endorse and support various forms of raising of funds in society, adopt effective measures to solve problems, strengthen the horizontal circulation of funds, help convert a part of the consumption funds into production funds, and gradually create conditions for developing transactions in securities. Regarding the labor market, we should gradually change the rigid employment system, create labor flow and competition for employment, quickly establish and perfect the social insurance system, separate the wage system from the social welfare system, and make budgetary restraints on wages more rigid. The gradual opening and perfecting of the three major markets mentioned above will help demolish the barriers to the flow of production factors, bring about optimal resources allocation over the whole economy, and make budgetary restraints on enterprises more rigid. Hence, it will have great effects on the attainment of equilibrium market prices. Price reform and the perfecting of the market system must proceed together, each with its own emphasis. However, how can the market be perfected before price distortions have been corrected and how can price reform be successful before the market system has been perfected? This will undoubtedly remain a predicament in our work.

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## ECONOMIC MANAGEMENT

### COMMENTARY ON INDIRECT MACROECONOMIC CONTROL, REFORM

Wuhan CHANGJIANG RIBAO in Chinese 3 Nov 85 p 1

[Commentary by staff commentator: "Macroeconomic Control Also Constitutes Reform"]

[Text] During the past few years, we have done some not insignificant work and achieved some not so small results in the opening up and enlivening of our microeconomy. Today, the party Central Committee has suggested that, while further perfecting our microeconomic activities and organic systems, we should at the same time reinforce our indirect control in the marcroeconomic aspect. This is an important guarantee for our reform to proceed in the correct direction.

Some comrades cannot altogether understand why we must reinforce our macroeconomic control. They often put macroeconomic control and microeconomic enlivening in opposition to each other, thinking that the reason for reinforcing macroeconomic control is because the delegation of power to the enterprises has become excessive, so that it is now being "reigned in"; they are worried that such reinforcing of our macroeconomic control would "strangle to death" the enterprises that have already been "enlivened." or they would stress the special characteristics of their respective localities or departments by requesting a relaxation of such macroeconomic control.

We think that, while microeconomic opening up and enlivening are reform, macroeconomic control also constitutes reform. What we speak of as macroeconomic control does not mean going back to the old path of directly controlling the enterprises but exercising indirect control over the enterprises by the application of economic levers and economic laws. Only by solving this problem well can we create good environment and conditions for further enlivening our enterprises. Some comrades say, an enterprises is like a kite, while macroeconomic control is like the string that flies the kite; enlivening an enterprise is namely flying the kite. When we fly a kite, we must have some string; when that string is too long, the kite cannot be flown; but lacking the string, the kite would be either blown away or simply fall down. This analogy may not perhaps be accurate enough, it is nonetheless somewhat enlightening to us for correctly understanding the relationship between macroeconomic control and microecnomic enlivening. Doing a good job in exercising macroeconomic control would not cause us to find our enterprises harder and harder to handle, but to find them becoming more and more vitalized.

Doing a good job in our reform of macroeconomic control makes a reform that can play a decisive role in the overall situation; compared to microeconomic enlivening, macroeconomic control is even more complicated and difficult. It requires the economic management departments of governments at all levels to carry out corresponding readjustment and reform and to improve their level of scientific policymaking. It requires them to catch up in respect to the application of economic levers, the perfecting of our economic legislation and economic supervision, etc. And it requires them to form a set of means for organic control that would organically combine planning with the market, and microeconomic enlivening with macroeconomic control. Only thus can we promote the healthy development of our reform and realize benign circulation in our national economy.

How to explore and learn to exercise macroeconomic control indirectly is the basic work for carrying out economic restructuring in the cities. In the case of the central cities, they are linked to the whole situation of our national economy above, and to the cells of our social economy below--the enterprises; on the matter of reinforcing our macroeconomic control, they play the important role of receiving from those above and passing down to those below. We must conscientiously implement our party Central Committee's principles, policies and demands on macroeconomic control; at the same time, we must also proceed from reality, plan uniformly and coordinate everything, control that which needs to be controlled and release that which needs to be released without resorting to doing all things the same way. Under macroeconomic control our central cities must serve well as "conveyers" by regularly analyzing the prevailing situation, coordinating policies, and play the regulatory and supervisory role of economic levers. In respect the exploration of the separation of the enterprises from administration and the exploration of the diversion of our governmental functions, they must make great strides.

Our reform must be perfected continuously through practice. We must both do a good job in macroeconomic control and enliven our microeconomy; in these respects we do not have any ready experiences displayed anywhere; they require us to continue to sum up and continue to make progress through practice.

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## ECONOMIC MANAGEMENT

### JOURNAL ON IMPROVING MACROECONOMIC MANAGEMENT

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[Article by Run Junjin [0117 1498 0955] of the Investigation and Research Office of the People's Bank of China: "Some Problems in Improving Financial Macroeconomic Management"]

[Text] Countering the excessively inflated market demands in the fourth quarter of 1984, in 1985 the state enforced a retrenchment policy. Following a year's efforts, the macroeconomic results achieved have become very obvious: Loans to township enterprises, which at one time had increased rather rapidly, have been controlled within the annual plan; loans for fixed assets investments have strictly followed stipulations of the plan and the limits have not been exceeded; even under the conditions of further developments in commodity prices and adjustments of the wage structure, during the whole year issuance of banknotes dropped drastically compared with 1984; and following the enforcement of stern macroeconomic control and the merging and regulation of funds, the requirements for funds for the purchases of agricultural and sideline products, products for export to earn foreign ecchange, and marketable goods have all been met. What did the year's practices explain? At least three things can be ascertained: First, in comparison with balancing in kind, regulation of the macroeconomy in value terms produces faster effects in rectifying the situation of excessive demand and is simplier and easlier to carry out. Second, under a planned commoity economy, finance is one of the basic means employed by the state to control the economy. It is an exceedingly correct decision to employ economic levers to regulate the whole economy and to realize the objective of macroeconomic control; third, use of banking as a tool to regulate the economy represents itself an important reform in macroeconomic control and is a big breakthrough in banking theory and practice in our country; the practice has propagated the banks to the populace and has won the country's acclamation, resulting in unprecedentedly great importance being attached to banking work.

However, use of the banks to regular the economy is, after all, a new experiment in our country. The reform of the structure has a problem of coordination, and we are short of a complete set of experiences. As a result, as for how to meet the requirement of continuing to keep the social gross demand under control during the first 2 years of the Seventh 5-Year Plan, there are still several problems which we must further study and which must be solved well and systematically.

First, there is the problem of expanding the coverage of the macroeconomic control of finance. Last year, the phenomena appearing following the tightening of macroeconomic control were tightening of bank credit but a rapid rise in commercial credit in the form of prepayment of orders, sales on credit, and so forth among enterprises; indirect merging of funds was controlled but direct fund-merging activities were activated; inflation of loans was checked but the growth of the deposits of enterprises greatly diminished. All this shows that the measures of control exercised by the Central Bank were not complete and that the coverage was not wide enough, leading to a portion of social funds and commercial credit escaping the bank's direct control. This in turn brought difficulties to the control of the social gross demand. Hence, in the first 2 years of the Seventh 5-Year Plan period, the Central Bank, in addition to continuing the control of the amount of rediscounted loans of the specialized banks, should enlarge the coverage of its macroeconomic regulation.

1. Guiding commercial credit: According to statistics of certain regions, of last year's industrial growth rate, 50 percent had come about through the enterprises delaying payments to each other or owing each other funds. This practice among the enterprises is an important channel for the expansion of investments and consumption. Hence, it is necessary to keep it under regimentation through introducing the use of financial instruments or notes. Specialized banks should undertake the discounting of financial instruments and the Central Bank should, through enforcing a rediscount policy and a rediscount rate, regulate the scale and direction of flow of commerical credit and make it become coordinated with the objectives of the Central Bank's monetary policy, thus perfecting the credit structure.

2. Effecting control over society's fund-raising activities: Expansion of the fund-raising scale of various localities has become an important factor in the balancing of the incoming and outflow of credits and loans. In 1985, the increase in deposits of enterprises was some 30 billion yuan less than in 1984. This was another important channel for the expansion of investments and consumption. As a transitional measure, we should fix the principles of governing the top limit of fund-raising in the localities and the distribution of profits. The highest limit should preferably not exceed 10 percent of the self-provided investment of the localities, while distribution of the profits should preferably not exceed the highest interest rate payable on the debentures issued by the banks. The distribution method which guarantees both "dry and liquid earnings" and provides that payment of both profits and interest should be prohibited. The scale of fund-raising and credit and loan funds should be subjected to unified arrangement, restricted to use on investments in sectors such as energy, communications, and raw materials. At the same time, legislation should be grasped, so that control should be by law and conditions be prepared for the lateral flow of funds and the formation of a capital market.

3. Enlivening and invigorating the measure of keeping reserve funds for deposits: At present, the role of the measure of reserve funds has not been put into full play. The amount of the reserves should be proportional to the circulating character of the deposits; that is, the higher the circulating character, the larger the amount of reserves funds to be kept or delivered. The provision of a set 10 percent should be changed. The reserve funds for deposits delivered by the specialized banks should not be interest-bearing, but high interest should be paid on excess deposits. The proportion of reserve funds for deposits cannot remain static, but should be flexibly adjusted in accordance with the need for expanding or tightening, so as to lead the scale of loans of specialized banks to the track of macroeconomic demand.

Second, there is the problem of strengthening the vitality of financial enterprises. The policy on credits and loans of selecting the best borrower and providing differential and preferential treatment has long been carried out, but insofar as the financial enterprises are concerned, loaning money to A or to B or to C is the same. It is thus difficult to adjust promptly the flow and the structure of funds, and at the same time we cannot avoid making a decision that is general. It will also be difficult to enliven the economy. All this is due to the financial enterprises lacking an innate vitality. There is hardly any response to the macroeconomic regulation measures in the microeconomic financial activities. Therefore, we should invigorate the financial enterprises just as invigorating the industrial and commercial enterprises.

A bank is an enterprise handling money and funds. The basic earmark of a bank operating like an enterprise is its possession of decisionmaking power regardint the handling and operation of funds and the corresponding responsibilities. There are three problems here which we must handle well: 1) demarcation of funds: Among the Central Bank and the specialized banks, there is not necessarily any connection between the plan and the management of funds. The Central Bank does not bear the responsibility of providing the funds to fulfill the sanctioned credit and loan plans of the specialized banks. The specialized banks should themselves organize and find deposits, borrow from contemporary banks, or issue debentures to procure the funds, and take the road of self-balancing. In the event of the funds being insufficient, the Central Bank may be resorted to for loans. For its part, the Central Bank must have in its grasp sufficient funds to flexibly regulate, according to the economic development needs, market conditions and commodity price indices, the scale of credits and loans, and money supply, so as to ensure the coordinated growth of the economy and to realize the macroeconomic objective of currency stability. Within the specialized banks, the upper-level units cannot guarantee the lower-level units the supply of funds for fulfillment of the plans. The system of three levels of management and one level of operations should be changed to operation by units at separate levels. The latter should earmark their own operation funds, operate independently, carry out independent business accounting, pay taxes according to law, set up various kinds of funds according to regulations from the after-tax profit retentions, change the units' all-round incoming and outgoing relationships with regard to funds to deposit-and-loan relationships, and totally break the practice of "everybody eating from the same big pot" in the use and employment of funds. 2) Assessing and checking the financial enterprises: On the basis of the funds having been earmarked, a strict economic responsibility system should be installed so that there is decisionmaking power regarding loans and there is also responsibility borne for the risks of loans and errors in granting loans, thus integrating the three factors of responsibility, power, and benefits. Based on our country's situation, the assessment of financial enterprises cannot be based principally on the profit target as the criterion; importance must be attached to social benefits. It is suggested that a structure of assessment targets be installed, comprising fund-raising rate, fund operation rate, rate of acquisition or production, cost of funds, and recovery rate of loans and the average turnover rate of the same category of loans. The different proportional weight of each and every one of these assessment targets in the overall business performance should also be determined. They should be employed separately in the assessment and linked with the interests of the financial enterprises and their staff members and workers. The assessment targets should exercise the following function: forcing the financial enterprise to invigorate their funds and to seek the highest results in the use of the funds and invigorating the economy. 3) The problem of relations among banks and enterprises: The banks' practice of opening their doors wide to provide funds to the enterprises is an important reason for certain enterprises going into debt heavily so as to support production which yields low returns and to convert a large amount of circulating funds into fixed asset investments. Following the banks being run as enterprises, they and the enterprises bear an relationship of two economic entities in their relations with each other. When the benefits of funds and their return or recovery threaten the interests of the financial enterprises, the safety factor of funds will make the banks more appropriately watch their decision on the direction of loans. But before this emergency happens, necessary administrative measures should be taken: old enterprises should be reuqired to put aside at least 10 percent of their after-tax retentions to supplement their circulating funds; when new enterprises and enlarged enterprises go into operation, they should follow the requirement of setting aside 30 percent of their capital as circulating funds. Any insufficient portion may be filled by bank loans, but a high rate of interest will be charged as a punitive measure. Capital losses awaiting replenishment should be made up by the enterprises themselves, for which there must be a fixed time limit. Enterprises which have uncollected outstanding accounts of long standing and have been falsely reporting losses as profits should not be given any loans. Loan funds should not be used to make good delinquent accounts which should have been examined and passed by the finance department but have not been so examined or passed and accounts which, according to policy requirements, should have been replenished but have not yet been so replenished. This can avoid expansion of credits and loans and losses for the state.

Third, there is the problem of facilitating the lateral flow of funds and the formation of a money market. At present, certain specialized banks have formed a system of their own. The flow of their funds is in a vertical manner, and the more acute the demand for funds, the greater the difficulty to seek loans or discounts. This is like the situation at a time of a shortage of steel products, of setting up of a storage for steel products at each and every level. A situation like this runs counter to the development of lateral relations among the enterprises. The solution is: After the specialized bank has effected its own self-balance, the Central Bank will take the volume of loans designated in the budget and the target for temporary loans and, according to the economic development needs within the system, cut them piecemeal and assign the pieces at each season of the year to the provincial branch banks. The provinces will then, following the economic development plans of the localities, transfer the volume of rediscount loans assigned to the specialized banks to the city-level branch banks. This strengthens the power of regulating and adjusting funds of the city-level branches of the Central Bank and correspondingly cuts the power over funds possessed by the head offices of the specialized banks and the provincial branch offices of the Central Bank. The good point of this reform is that the city-level offices are in close contact with the economic activities of the enterprises and possess more knowledge about the business conditions of the specialized banks at their level and other financial organs. They are thus in a better position to control the scale of credits and loans, regulate and adjust the composition of funds, and merge the balances and deficits in the accounts of the various specialized banks. In the distribution and circulation of funds, the following situation is thus formed: Following the formation of economic regions with cities and towns as the centers, the strengthening of the lateral economic liaison and opening up of many channels for commodity circulation, and with the department as the principal factor in the system of the Central Bank and the region as the center between the Central Bank and the specialized bank, a money market with the city as the center is naturally formed.

In the capital market, the discounts market is of the utmost importance among the banks. Financial enterprises which operate independently are entitled to loan their surplus funds through discounts, with the interest rate being determined by supply and demand. The Central Bank should take part in both the inward and outward flow of their funds in the discounts. When the Central Bank grants loans to specialized banks or to the discounts market or absorbs the surplus funds of the discounts market, the volume and interest rate are determined according to the needs of an expanded or tightened money market. On the one hand, it must keep under its control the discounts market of its contemporaries, and at the same time observe the interest rate of the capital market so as to flexibly regulate the scale of credits and loans and money supply. The supply and demand of funds and the market mechanism can more accurately judge the laxity or stringency of the money market than can direct observation or planning. Only through exceedingly developing the discounts and loans market of the contemporary banks can the Central Bank's tactics of regulation and control be more sensitive, and only thus can the lateral flow of funds and the road to the specialized banks' self-balancing be opened up.

Fourth, there is the problem of it being necessary to maintain the relative independence of credits and loans. At present, financial organs in our country have been established according to the administrative regions. Banks at various levels are responsible for promoting the economic development of the various localities under the leadership of the local governments. But credit and loan funds come under the unified management and use of the state, and in a stated period they have a limited volume. Hence, handling well the administration of credits and loans in whole and in part and the contradictions in the economic development of the localities is an important guarantee for the realization of the objectives of the monetary policy. The conditions last year were: In the face of macroeconomic tightening or retrenchment, the various localities strongly claimed their respective special conditions, thus reflecting the extremely serious contradition in the supply and demand of funds between the part and the whole, and the banks became the target of attack. Therefore, it is important to earnestly and thoroughly enforce the provisional regulations on banking control promulgated by the State Council, maintain the relative independence of credits and loans, and ensure that the specialized banks have decisionmaking power in granting loans. From now on, in the event of the branch organs of specialized banks or other financial organs being compelled to grant loans and subsequent losses being incurred, the administrative responsibility and economic responsibility of those persons directly responsible should be investigated and traced. This is an external condition extremely important for maintaining the specialzied banks acting truly as enterprises.

Fifth, there is the problem of speeding up the coordination with the macroeconomic regulation tactics. The important point in the first 2 years of reform under the Seventh 5-Year Plan revolves around the need to stabilize the economy. The macroeconomic strengthening and perfection of the structure of indirect control is also an important embodiment of the reform. It is more complex and more difficult thatn microeconomic invigoration and direct contrul. Last year, the outstanding problem in economic life was that the growth arranged for in the plan was not high but the actual result doubled the plan: while investments under the plan were subjected to control, extrabudgetary investments grew at an uncontrollable rate; while the condition of financial revenues and expenditures was good, the phenomenon of excess distribution of the national income continued to exist. Obviously, the concrete employment of the economic levers met with difficulties and could not achieve the purposes, resulting in inflation of the investments and the control of consumption failing to reach the desired extent. For example, regarding how to guide the direction of extrabudgetary investments, effective measures were still lacking. As for those problems appearing in the initial distribution of the national income, the credit and loan levers were helpless and could not operate well in regulation. Hence, in the recent realization of the objective of controlling the social gross demand, it is necessary to earnestly control the extrabudgetary funds and to comprehensively control the extrabudgetary funds and to comprehensively employ the various kinds of economic levers such as planning, finance, taxation, auditing, and banking so that they can work as a coordinated whole and guide the microeconomic activities onto the track of macroeconomic demand. Looking to the future, through the overall control of the enterprises, the following regulation mechanism should be gradually formed: The outside direct management and control of the enterprises should be changed to the enterprises' own regulation and control.

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## FINANCE AND BANKING

### JINGJI YANJIU ON FOREIGN EXCHANGE RATES, TRADE

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[Article by Wang Zhenzhong [3769 2182 0022] of the Economic Research Institute Under the Chinese Academy of Social Sciences: "Changes in Foreign Exchange Rates and the Development of Foreign Trade"--written in February 1986]

[Text] Following the changes in the economic system model and the reform of the mechanisms of economic movement, people have made increasingly pressing demands for the reform of foreign exchange rates. In a situation of opening up, the key to bringing into play the regulatory role of the pricing mechanism lies in the use of the foreign exchange rate mechanism. The substance of a foreign exchange rate is the exchange ratio between the comprehensive purchasing power of the currencies of two nations. The influence and the stimulatory power of the establishment of, and changes in, the exchange rates are greater than those of the pricing adjustment in any single area (for example, in the reform of agricultural and sideline products prices, the reform of industrial product prices and so on). They also have overall effects. What should the theoretical basis for formulating exchange rates be? This is a question which demands serious study and this article offers a few initial explorations.

#### 1. The Major Avenues For, and Basic Patterns of, Changes in Our Nation's Foreign Exchanges Rates

Since the founding of the PRC,our nation's foreign exchange rate changes can be divided into four periods (using only the example of the exchange rate of the U.S. dollar to Renminbi).

The first period was 1949 to 1952. The exchange rate of Renminbi to U.S. dollars was first posted on 18 Januarh 1949 in Tianjin. At this time, the rate was $1 equals 80 yuan (old currency). In March 1950, unified national financial administration was introduced and on 13 March, the posted price for U.S. dollars was $1 equal 42,000 yuan (old currency). On 28 September 1950, buying and selling prices were posted for the first time and at this time $1 equalled 31,000 yuan (old currency, buying rate). on 16 December 1950, the United States froze our nation's funds. From 1 January 1952, the Chinese People's Bank ceased posting prices for U.S. dollars. The last posted price was $1 equals 22,270 yuan (old currency, buying price). In this period, because the ownership of the enterprises engagin in foreign trade was diverse and because the strongest force in trade was the private import-export commercial operators' trade with capitalist countries, the foreign exchange rate system was mainly a form of market regulation. In the continual fluctuations, a point of balance was sought and although the changes were extremely frequent, the most outstanding characteristic was that it tended from fluctuation towards stability and, following the decline of the rate of domestic currency inflation, the exchange rate gradually rose.

The second period was from 1953 to 1980. In 1972 Chinese-U.S. relations thawed and on 14 September of that year our nation's banks commenced again posting U.S. dollar rates, and the rate was $100 equals 221.74 yuan. If we compare this with the posted rate when postings were stopped on 1 January 1952, we can see that over the period of 20 years, there had basically been no change. The notable characteristic of this period is that the exchange rate was in accord with the demands of planned fixed prices and the planned price management system, and our foreign exchange rates were basically in a solid condition. This was especially so from 1955 to 1971 when all along $100 equalled 246.18 yuan. Because the IMF at this time also adopted a fixed exchange rate system, the effects on our nation were not great. After 1972, the tendency for our foreign exchange rate was basically straight-line appreciation. If we take the annual average figures for example, in 1972 $100 equalled 224.01 yuan. In 1973, it equalled 200.53 yuan and in 1974, 187.70 yuan. In 1977, $100 equalled 175.53 yuan, in 1978, 168.36 yuan, and in 1980 $100 equalled 150 yuan. The situation of overvaluing in foreign exchange became more and more serious and we thus missed a good opportunity to regulate the level of the exchange rate.

The third period was from 1981 to 1984. Starting on 1 January 1981, there was an internal account-settling price of $1 equalling 2.8 yuan implemented for trade foreign exchange. Non-trade foreign exchange was calculated at the price posted in the banks of $1 equalling 1.5 yuan. This foreign exchange rate system did not achieve the desired results.

The fourth period was from 1 January 1985 to the present. From the beginning of 1985, the rate posted by our banks was devalued to 2.8 yuan and at the same time, internal account-settling was abolished. The notable characteristic of this year was the adoption of the method of small steps and repeated devaluations, while in the latter half of the year, the pace clearly quickened. On 23 August, $1 equalled 2.9 yuan, while on 3 October it equalled 3.0 yuan. On 23 October the rate was $1 equals 3.1 yuan and by October 30, $1 equalled 3.2 yuan. Over a period of 10 months, the Renminbi was devaled by 14.29 percent against the U.S. dollar. This price has been maintained until the first part of February 1986. Our foreign exchange rate changes made in 1981 and 1985 were intended to make the sales price of imported products higher, so as to benefit export products. However, these two changes happened to coincide with high U.S. interest rates which stimulated great demand for U.S. dollars in all countries of the world. Thus, the dollar rose in value and the value of the currencies of a great many countries fell.

This had a worldwide reaction on international market forces, obviously restricting us in achieving the goal of using the foreign exchange rate changes to promote exports and reduce imports. This was because, as the dollar rose in value, the cost of goods we imported from other countries fell, thus inducing a growth in import demand. When we lose macroeconomic control, the imbalanced development of exports and imports becomes particularly clear. For example, if we compare 1983 with 1982, exports grew by 1.74 percent, while imports grew 6 percent. Also, comparing 1984 to 1983, we see that exports grew 9.95 percent, while imports grew 36.64 percent. Lastly, comparing 1985 to 1984, we see that exports grew 5.7 percent while imports grew 31.8 percent.

In brief, in these 37 years, the basic situation in our nation's foreign exchange rates has been one of moving from fluctuation to stability and then revaluation and finally devaluation. The period of consciously using the measure of devaluation to stimulate exports began in 1981, but it saw marked development in 1985. It is truly necessary to carry out theoretical analysis and forecast the effectiveness of using this measure.

## 2. The Economic Expectations and Actual Results of Devaluation

Like many other developing countries, our nation in its early stages of economic development seriously lacks foreign exchange and thus wants to use the measure of foreign exchange rate devaluation to realize certain economic hopes. The basic aim is to try to expand exports and increase foreign exchange income, as well as to protect domestic industry to achieve certain economic results. These results can be divided into long-term results and short-term results. Long-term results refers to where, through the devaluation of foreign exchange rates, changes in the export commodity structure are stimulated over a long period, so that domestic production resources are deployed in the best way and so that the overall national economy realizes a fine cycle. Short-term results include results in terms of income and results in terms of prices. The results in terms of prices can be further divided into the two levels of direct pricing results and results which affect prices. This is the focal point of this article's analysis.

What are called direct pricing results produced by devaluation means that foreign exchange rate devaluation on the one hand causes the prices of that country's export products to fall, thus gaining an advantage in price competition and stimulating the growth of exports. On the other hand, it causes the prices of this country's imported commodities to rise, thus curbing import demand. In this way, through the use of the single measure of foreign exchange rate devaluation a double effect can be realized, thus improving that country's foreign trade situation. However, whether the devaluation is able to increase exports and reduce imports, and the degree to which this can be realized are not things which can be determined by one's own wishful thinking. Rather, they are determined by that country's import and export commodity prices and supply-demand elasticity. Seen from the export angle, it is decided by the degree of the supply elasticity of the country's export commodities as well as the demand elasticity for those export commodities in the foreign country. Thus, the actual movement of export commodities after devaluation often differs greatly from what people hoped for and sometimes their hopes are even turned into disappointments. This is because:

1. The foreign price demand elasticity has diverse feedback and thus the devaluation will not definitely be able to ensure that exports increase by a great degree.

When a country devalues its foreign exchange rate, if that country's commodity export supply elasticity is infinitely great (that is the export commodities will continue to be produced under conditions of unchanged costs), then the transmission mechanism of the effects of devaluation will move as follows: the prices of the country's export commodities, expressed in foriegn exchange, will drop in proportion with the rate of devaluation. Thus, its export quantities will inevitably increase. However, the interrelationship between the rate of increase in export quantitites and the devaluation rate is not always one of a balanced change. The changes will be determined by the price demand elasticity of the foreign country for the export products of the exporting country. If the import demand elasticity of the foreign country is equal to one, then the rate of growth in demand by the foreign country for the commodities of the country which has devalued its foreign exchange rate will exceed the rate of devaluation. In the same way the growth rate of exports from the country devaluing will correspond to the degree to which export prices have dropped, which will result in the scale of exports being unchanged. If the foreign country's demand elasticity is greater than one, then that country's growth in demand for the commodities of the country which devalued will increase by a rate greater than the rate of the foreign exchange devaluation. Only at such a time will the growth rate of exports from the country devaluing be greater than the drop in the prices of its exports, and can exports thus increase. However, if the import demand elasticity of the foreign country is less than one, then the growth in demand for commodities from the country which has devalued its currency will be less than the rate of devaluation. At such a time, the growth of the exports from the country which has devalued will be less than the percentage drop in export prices. This will result in a shrinkage of exports. If we look at our nation's export trade, the 1981 internal account-settling price was in essence a 50 percent devaluation of Renminbi, but over the last 5 years, the growth in exports was far lower than the devaluation percentage. From 1981 to 1985 the respective annual growth of exports over the previous year was as follow: 14.34 percent, 4.74 percent, 1.74 percent, 9.95 percent and 5.7 percent. One of the major reasons for this was that our nation's export structure and the import structure of the major developed nations were not linked up. This clearly restricted the force of foreign demand elasticity in stimulating our exports.

2. Export supply elasticity is composed of many levels and thus devaluation cannot definitely ensure that export prices can maintain superiority.

If we say that whether export quantities can increase by a large margin following devaluation depends on the degree of demand by the foreign country, then whether a country's export commodities can, after devaluation maintain the competitiveness of low prices is determined by the changes in that country's export supply elasticity. Only if the country's export supply elasticity is infinitely great will the prices of the export of that country, as expressed in foreign exchange, not rise following the growth of export quantitites after devluation. However, in a normal situation, especially in a developing country where both technological and management levels are very backward, the export supply elasticity is generally less than infinitely great. That is, production is carried on in a situation of steadily increasing production costs. Thus, the prices of the country's exports, expressed in foreign exchange, which will fall following devaluation, will gradually rise following the increase of export quantities. This has especially been so in our country since the pricing management forms saw various changes. The phenomenon of diversified pricing has followed these changes, which has led to quite a large increase in the production cost of export commodities. Taking only the 1985 prices of agricultural machinery such as diesel engines, tractors and water pumps produced in five provinces and cities including Shanghai and Jiangsu as an example, we see that they were 15 percent higher than the 1984 average. The result is that costs converted to foreign exchange have continually risen. For exchange of U.S.$1 the cost was 2.48 yuan in 1981, up 7.36 percent on the previous year. In 1982, it was 2.67 yuan up 7.66 percent over the previous year. In 1983 it was 3.07 yuan, an increase of 14.98 percent over 1982, and then in 1984 it was 2.80 yuan, up 8.8 percent over 1983. Some people believe that the internal account-settling price set in 1981 was retroactive recognition of an established fact and its feedback role in terms of foreign exchange costs was very small.

In fact, the relationship between foreign exchange rates and costs converted into foreign exchange is not a uni-directional questing relationship. Rather, there exists a double directional stimulatory effect and it thereby becomes an extremely important link in the cycle of macroeconomic activities. Its course of movement is generally as follows: Currency inflation influences the upward movement of export commodity prices which makes import commodity prices more competitive. This influences the balance of payments and the employment rate and there is thus the possibility of devaluation. Devaluation leads to the price of import commodities rising. Thus, that country's commodity costs rise, which leads to price rise, currency inflation...and so the cycle continues. This is the second level of pricing results produced by foreign exchange devaluation, that is, results which affect prices.

3. There are five types of import-export situations and thus devaluation will not definitely cause the balance of trade to improve.

Devaluation affects not only exports, but also imports. Thus, we need to carry out a further investigation from the angle of the trade balance. After carrying out devaluation, five types of situation can exist in respect of the improvement of the balance of trade:

1. Exports increase and imports decrease. 2. Exports increase and imports remain unchanged. 3. Exports increase and imports also increase, but the increase in the former is greater than the increase in the latter. 4. Exports do not change but imports decrease. 5. Exports decrease and imports also decrease, but the decrease in the former is smaller than the decrease in the latter. But in no matter which case, the devaluation will only be able to achieve an improvement in the trade balance if the sum total of the export demand elasticity and the import demand elasticity of the

country devaluing is greater than one. If it is equal to one, the trade balance will not be affected. If it is smaller than one, then the foreign exchange devaluation will cause the trade balance of the country devaluing to deteriorate. Thus, in the competitive environment of international markets, the act of devaluation can only be of benefit to the trade balance when the export supply elasticity of the country devaluing and the import demand elasticity of the foreign country maintain the same direction. Here, there are two possible situations: The first is when the import demand elasticity of the foreign country is quite great. In this case, the greater the supply elasticity of the exporting country, the greater the benefits that the devaluation will have in the improvement of the exporting nation's trade balance. The second is when the import demand elasticity of the foreign country is quite small. In this case, the smaller the supply elasticity of the exporting country, the greater the benefits that the devaluation will have in the improvement of the exporting nation's trade balance. If not, just the opposite will occur. The original intention would be that, through devaluation, the positive trade balance will increase, but unexpectedly the contrary effect would appear and the positive trade balance would continually decrease. The situation in our nation over the last few years has reflected this phenomenon. After commencing internal account-settling for trade in 1981, our positive trade balance figure has declined year by year. In 1982, it was $4.249 billion, in 1983 $1.99 billion and in 1984 $0.014 billion. This produced a downward trend in our nation's recurrent projects' income-expenditure surplus. In 1982, this was $5.674 billion, in 1983 $4.24 billion and in 1984 $2.03 billion. This shows that despite the devaluation, the trade balance did not improve. It can even be said that it is precisely because our nation's trade balance has all along seen a surplus, that the opportune decision to devalue lacked deep thought and, from the macroeconomic decision-making angle, was not appropriate.

## The Actual Deviation of Foreign Exchange Rates and the Position of the 'Three P' Theory

At present there are three theories of foreign exchange rates current in the world. I believe that these can be divided into two types: One type puts stress on explaining the factors in exchange rate changes, but overlooks the factors of foreign exchange determination. This type includes the international balance of payments theory and the remittance psychology theory. The second type puts stress on the factors of foreign exchange rate determination, but at the same time does not overlook the changes in foreign exchange rates. An example of this is the theory of purchasing power parity.

The international balance of payments theory was put forward by the English economist Goschen in his book "Theory of Foreign Exchanges" published in 1861. Although the book only had 150 pages, it has long been looked on as a classic of foreign exchange theory. This theory holds that changes in foreign exchange rates are determined by the supply of and demand for foreign exchange, and foreign exchange supply is determined by international credit relationships. People's criticism of this theory is mainly based on the argument that there are many factors which influence changes in foreign exchange rates, and also because of the limitations the gold standard system engendered. Actually what they see as Goschen's "weak points" would be better seen as the only correct choices of an economist at that time. One point in this theory long overlooked by people is: the international balance of payments theory does not overlook the influence of the level of a currency's purchasing power within the nation on the foreign exchange rate. Goschen pointed out that the foreign exchange rate often changes following changes in domestic purchasing power. From this, we can see that the international balance theory and the theory of purchasing power parity have some common points and are not two completely antagonistic things.

The theory of purchasing power parity is known, in abbreviation, as the "three P theory." It was put forward in 1916 by the Swedish economist Cassel and, in "Money and Foreign Exchange Theory Since 1914" which was published in 1922, he provided a detailed explanation of this theory. This theory first explained the two questions of "why we need foreign currency" and "how changes in foreign currency as compared to domestic value affect the demand for the currency." He pointed out that the ratio between the purchasing power of the currencies of two countries is the "first and most primary basis" of the foreign exchange ratio between the two countries. Thus, when the amount of currency in circulation in the two countries changes, then the normal foreign exchange rate should be equal to the old foreign exchange rate multiplied by the percentage change in the two countries' currency quantities. According to the theory of currency quantities, the ratio of the changes in currency quantitites can be seen as a ratio of price levels and can also be seen as an inverse ratio of the currency's purchasing power. Thus, the relationship between the new foreign exchange rate and the old foreign exchange rate can be expressed in a formula as follows:

The new foreign exchange rate for country A equals the base period foreign exchange rate for country A multiplied by the percentage change in the quantity of currency in country B, divided by the percentage changes in the quantity of currency in country A. This also equals the base period foreign exchange rate for country A multiplied by the price index of country B, divided by the price index of country A. This further equals the base period foreign exchange rate for country A multiplied by the percentage change in purchasing power in country A, divided by the percentage change in purchasing power in country B.

Some people negate this theory by proceeding from the negation of various basic premises, and especially by noting that various conditions outside the currency factors also change. Actually, this cannot negate the theory's functional nature. As Myrdal has said: "If we wished to prove that the theory of purchasing power parity is not universally valid, or if we want to prove that after international exchange remittance relationships suffer serious shocks, this theory will not accord with the theories of international trade, it will truly be simple work, but it will not attract the attention of ambitious scientists." Other people say that the theory of purchasing power parity can be summed up as an explanation of the fixing of foreign exchange rates. This is not a complete understanding because in the theory of purchasing power parity, it is pointed out that in respect of the formulation of new foreign exchange rates, the major reason for changes in foreign exchange rates are the changes in purchasing power given rise to by changes in currency quantities. What should be made clear is that a foreign exchange rate determined by purchasing power parity is a type of "normal exchange rate" or "balanced exchange rate." It is not an actual exchange rate. The actual foreign exchange rate may be the same as the normal exchange rate or may be slightly higher or lower than it, but the trend of its movement will generally be towards the normal foreign exchange rate. Thus, the normal exchange rate is a proportional standard and point of balance for the actual exchange rate. That is, purchasing power parity is a standard for foreign exchange rate changes under a system which uses the normal foreign exchange rate as a paper standard. Thus, although the short-term changes of the exchange rates of various countries today may continually diverge from the balanced rate, and deviations will thus occur, under the regulation of the international market pricing mechanism, it will continually draw closer to the normal exchange rate. It is precisely as a U.S. woman economist Susan Schadler has said: "There is evidence to show that the long-term tendency of foreign exchange rates is to maintain purchasing power parity between currencies...in a situation where there is no great interference, people believe that maintaining purchasing power parity means that foreign exchange rates should change to offset fluctuation in relative prices between countries." (Footnote 1: Susan Schadler, "Interest Rate and Exchange Rates" in FINANCE AND DEVELOPMENT 1984, issue No 6). Thus, in studying the long-term changes in exchange rates, it is necessary to study changes in the domestic value of money, that is, it is necessary to study the changes in the purchasing power of money itself and the changes in price levels. The price of money over a long period can only be the real price of the money, representing the amount of commodities or labor it can be exchanged for. The long-term changes in the exchange rates of representative industrial countries confirm that exchange rates under a floating exchange rate system will in the end be subject to the currency inflation rates of different countries. If the base period exchange rate between two countries is balanced, but their currency inflation rates are different, it will result in the price of the countries' currencies changing to the same degree, but in different directions. Observe the two graphs below (Footnote 2: Taken from Robert "Macroecnomics"):

Exchange Rates
(Various Countries' Currencies/U.S. dollar)

| | Canada dollar | France franc | FRG mark | Italy lire | Japan yen | Switzerland franc | U.K. pound | U.S. dollar |
|---|---|---|---|---|---|---|---|---|
| 1970 | 1.04 | 5.53 | 3.65 | 627 | 358 | 4.31 | 0.42 | 1 |
| 1982 | 1.23 | 6.57 | 2.43 | 1352 | 249 | 2.03 | 0.57 | 1 |

Average Annual Inflation Rate (Percent)

| | Canada | France | FRG | Italy | Japan | Switzerland | U.K. | U.S. |
|---|---|---|---|---|---|---|---|---|
| 1970 | 8.6 | 9.4 | 4.8 | 14.1 | 6.3 | 5.4 | 12.4 | 6.9 |

We can take the exchange rates between the advanced nations in 1970 under a fixed exchange rate system as the exchange rate level at a time of balance (while not excluding the historical controversy of individual country's overvaluations). However, under a floating exchange rate system, the exchange rates for the currencies of the various countries as compared to the U.S. dollar, moved in the direction of their currency inflation. From the graphs, we can see that in this period the inflation rates for the FRG and Switzerland were lower than the U.S. inflation rate, and their currencies rose against the U.S. dollar. Onthe other hand, Canada, France, Italy, and the United Kingdom had inflation rates higher than that of the U.S. over this period and their currencies dropped against the U.S. dollar.. These points show that the theory of purchasing power parity indeed has a feasible, practical significance. The relationship between currency inflation and foreign exchange value has caused people to pay particular attention to the degree of gorwth of the money supply. The money supply is used as a means of assessing changes in prices and as a basis for changes in foreign exchange rates. Thus, "in recent years various countries have begun to pay attention to the question of money supply in their economic policies, the various countries of Europe and America which had originally mainly used interest rates to formulate policies have, since the 1970's changed to financial indexes which stress money supply and which have quantities as their main part" (Footnote 2: Kosaku Furuta, the head of the Investigative Department of the Japan Kangyo Bank, "Views on the Financial Report" 1985). This is inevitable. Even though by looking at factors in exchange rate changes under the international floating exchange rates system over the last 10 years, people can see that while there are truly many factors which affect exchange rate changes, the one which holds the balance is the difference in currency inflation rates. Thus, since the dismantling of the Bretton Woods currency system, many countries still link their currency exchange rate to a basket of currencies or to various indexes of various countries.

What I would finally like to point out is that the "three P" theory and Marx' relevant theories are not as incompatible as fire and water. Once when Marx was speaking on one of the reasons for foreign exchange rate changes, he pointed out: "When a country's currency is devalued, regardless of whether it is a gold currency or a paper currency, the exchange rate change is purely a nominal one. For example, if now one pound only represented half of what it did formerly, then naturally it could not be considered to be 25 francs, and could only be considered to be 12.5 france." (Footnote 3: Marx, "Das Kapital" Vol 3, p 668. Renmin Chubanshe 1975 ed.). He pointed out that price "is an index of the exchange rate between commodities and money." (Footnote 4: Ibid. Vol 1, p 120). Thus, the stress placed on money volumes by the "three P" theory is not a shortcoming. Rather, this is precisely the theory's strongpoint.

## 4. The Reform of Foreign Exchange Rates Must Be Carried out Carefully and Safely

The reform of foreign exchange rates is an extremely important part of the reforms to realize open-style pricing. If we say that the reform of prices for agricultural and sideline products is the overture, then the reform of foreign exchange rates can be considered the composition's climax. The reform of foreign exchange rates is a huge process during the pricing reforms. It is the most difficult stage, but it is something which must be done. This is because if we shirk this, we will not be able to strengthen the degree of market transparency. However, because the situation of our overvaluing in terms of foreign exchange has been created over a long period, we cannot try to improve things in a single morning. Rather, we must proceed from our national conditions and carry out the changes carefully and safely.

### 1. While studying the international use of devaluation measures, we must take the example of Brazil and such countries as a warning.

At present, when discussing how to expand exports, many people like to raise the example of what happened in Brazil and other developing countries through the devaluation of exchange rates. But, we should not forget that Chile also devalued its currency 26 times in 1975 and that Argentina in the 6 years following 1973 devalued its currency to one-eighth its original value. Although their export growth developed over this period, there was excessive growth in exports and this produced turmoil in their domestic economies. In fact, Brazil's experiences in this respect provide us with thorough-going lessons for example, the final result of Brazil's repeated devaluations was that it became heavily debt-ridden. If we take 1980 as an example, the country with the highest foreign debt in the world was Brazil, with debts totalling $37.82 billion. The country with the highest debt interest payments was also Brazil, with interest payments of $4.14 billion. The country with the highest debt repayment rate was also Brazil, with a rate of 34 percent. However, the situation further deteriorated. At the end of 1982, Brazil's total debt was $87 billion and in 1983 it had to pay back $30.8 billion, 117 percent of the 1983 export income. We know that foreign debt service ratio refers to the total amount of capital and interest which a country must repay over a year as a percentage of its foreign exchange income from exports (including both commodities and exports) within that year. This is an indicator of whether a country's foreign debt is heavy or light and whether debt repayment capabilities are great or small. The debt service ratio should in general not exceed 20 percent. If this figure is exceeded, it is generally held that that country's foreign debt is too great. Thus, debt credit is affected and this in turn affects the development of foreign trade. When income from exports over the year are lower than the amount to be repaid for debts in that year, it is disadvantageous to the development of foreign trade. Also, seen from the long-term, the continuous devaluation of the foreign exchange rates cannot realize the change from an internally-oriented strategy to an externally-oriented strategy. EUROPEAN CURRENCY did an investigation of the economic development of 93 countries and regions over the last 10 years. The data shoed that in the 10 years from 1974 to 1983: 1) The countries with the highest inflation rates were: first Argentina with an annual rate of 181 percent, third Chile with a rate of 79.6 percent and fourth Brazil with an annual rate of 65 percent. 2) The countries with the weakest currencies were: First Argentina, third Brazil and fifth Chile. 3) The place of the country's currency foreign exchange rate in terms of special drawing rights were: Chile occupied 89th position (an average change of 63.4 percent as calculated using special drawing rights), Brazil occupied 91st position (an average change of 70.6 percent as calculated using special drawing rights) and Argentina occupied 94d position (an average change of 181 percent as calculated using special drawing rights). 4) In terms of export growth: Chile occupied 86th position, Brazil 91st position and Argentina occupied 93d position. 5) In terms of economic growth: Brazil was in 90th position, Chile was in 91st position and Argentina was in 93d position. It is self-evident that the countries at the front in items 1) and 2) will inevitably be pushed to the end in items 3), 4), and 5). This situation can be compared to the two sides of a coin having the same value. We should pay great attention to these lessons.

2. In decisionmaking on changes in long-term exchange rates we must mainly rely on the international balance of payments.

When carrying out exchange rate adjustment, we must proceed from the macroeconomic angle, and base ourselves upon the point of whether or not we can achieve a balance in our nation's international balance of payments for quite a long period. Thus, we should not jst see foreign exchange rates as trade cost functions and forget that they are also overall international balance of payments functions. When we were having difficulties exporting and there were problems in expanding exports, and we thus adopted devaluation measures, it was at a time when our nation's foreign exchange reserves had a surplus. At that time, it was an opportunity to increase imports. Adopting the develuation measure at this time pushed domestic prices higher and did nothing to restrain imports. As to whether taking another decision would have allowed us to realize the aim of increased exports and reduced imports is just idle theorizing. Practice has caused people to deeply ponder a point. That is, in a situation where Renminbi is overvalued, and where exports are in a slump, if we wish to conisder using the devaluation measure to promote exports, so that it can play a role in promoting exports and reducing imports, a necessary condition is that the excessive demand within the country be controlled. Only thus can this role be brought into play.

3. This year's level of foreign exchange rates changes should be stable.

This year is a period of digestion for last year's price reforms. It is also a period of adjustment for the leaders and the masses in gaining a mental acceptance of the price changes. Thus, foreign exchange rates should generally be stable and we should not carry out repeated small devaluations. The specific reasons for this are as follows:

First, in a situation of lacking commodities and the slow improvement of labor productivity, it is difficult to look forward to devaluation producing, in the short-term, a speedy increase in exports or the realization of benefits. Rather, it will only cause the present domestic and international sales contradictions to become more serious and will exacerbate the degree of tightness in the supply of commodities within the domestic markets. At the same time, the foreign exchange income from the sale of commodities as a proportion of foreign exchange income from all aspects of the tourist industry has always been great: In 1980, it was 40.8 percent, in 1981 37.9 percent, in 1982, 38 percent, and in 1983 it was 37 percent. Devaluation also means that foreign purchasing power will increase and this will undoubtedly have a stimulatory role and will put pressure on market supply. We should pay special attention to the example-setting effects of the changing price levels of these commodities.

Second, devaluation causes the costs of imported commodities to increase and reduces the number of them imported. This prompts a growth in the demand for domestic import-substitution commodities. Now is not the right time for this. An important opportunity this year is provided by the decision taken by the "Paris Planning Conference" to remove the embargoes on our country in respect of advanced technological products in 27 areas. From operational soft-ware for large-scale computers to industrial-use robots and related equipment, and from civilian aircraft and helicopter equipment and parts to lasers and laser systems, all the bans were unfrozen. We should grasp this opportunity and, at a relatively low cost, obtain high-level technology. If at this time, we reduce imports and engage in some sort of replacement, it will not be of benefit.

Third, after prices within the nation were freed last year, the production costs of domestic factories also rose. Devaluation will result in imported commodity prices rising. When these imported commodities are used as the means of production, it will inevitably increase the tendency for production costs to rise. Thus, this will act as a fomenting agent in cost-push inflation. If imported commodities are consumer products, the price rises will lead through the example-setting effect, to changes in the prices of the same type of products within the country and this will affect the stability of the overall level of prices within the country.

Fourth, currency devaluation undoubtedly causes the amount of Renminbi an exporting unit will receive from the converted foreign exchange from the same unit product to rise. This increases their profit levels and thereby stimulates their enthusiasm for export. But it also means that the state bank will have to pay out more Renminbi for the foreign exchange necessary to purchase the same unit product and this will increase the amount of currency incirculation. Clearly this does not coincide with the idea of forming a relaxed economic cycle. Seen from the microeconomic angle, although our nation's total exports constitute 5.5 percent of our total industrial and agricultural output value, the degree of pounding received by domestic prices through devaluation is not determined by a percentage figure. The direction of flow of the increased Renminbi amounts coming in to export enterprises are not differentiated by whether they are domestic and foreign. This provides increased difficulties for us this year in our macroeconomic control.

4. It Is Appropriate To Institute Complete Drawbacks as Export Subsidies.

In order to stimulate exports, it is a common international method for governments to provide certain subsidies for export products over the whole process from production to sales. We should not crudely negate this method. In fact, I am afraid that it would be quite difficult to find any country where there is not a relationship of "reliance" between its foreign trade and its financial administration. It is appropriate that we institute complete drawbacks for export commodities. According to the estimates of relevant departments, export product tax and value added tax constitute an average 16 percent of the total cost of exports. That is to say, if those taxes were completely withdrawn, the foreign exchange cost could be reduced by 16 percent. This in fact is even greater than the current degree of foreign exchange rate devaluation. If we provide various types of subsidies in the various processing links in the production of export products, then we would be able to resist the method used by other countries in levying "anti-subsidy taxes" and "anti-dumping taxes." This would enable our country to maintain a certain competitiveness, something which devaluation could not achieve.

5. We should establish a controlled foreign exchange market with foreign exchange-on-hand certificates as the axis.

At present, our nation was the system of enterprises retaining foreign exchange funds. The percentages are not small and likewise the amounts are not small. Thus, we should no longer adopt the method of progressive foreign exchange retention at different levels. At present, there exists the following two problems: The first is that the actual amounts of foreign exchange retained by enterprises is far less than that promised to them. The majority is intercepted and retained by provincial and prefectural departments. The other problem is that foreign exchange lacks the controls of market mechanism and funds lack avenues for lateral flow. Thus, the phenomena of lack of foreign exchange and fund precipitation exist together. The speed of actual use of foreign exchange is low (for example, the amount of foreign exchange really used by Qingdao each year is only about 20 percent of the amount approved for use). After implementing a system of foreign exchange exchange-on-hand certificates, the foreign exchange bank can directly issue an enterprise a foreign exchange-on-hand certificate in accordance with the proportion of foreign exchange to be retained by the enterprise. This will thoroughly eliminate the actions of administrative departments [words indistinct] the enterprises' profits. We should also allow the holders of the foreign exchange-on-hand certificates to transfer and sell their certificates at designated markets and at foreign exchange organs. The price of the foreign exchange-on-hand certificates can be completely determined by supply and demand. The government banks for handling foreign exchange should also buy and sell these foreign exchange-on-hand certificates. The state should establish a foreign exchange levelling fund with which to intervene in the market to reduce the degree of deviation between these certificates and normal foreign exchange and to stabilize the foreign exchange rates. Thus, using the foreign exchange-on-hand certificates as the center, it will be possible to bring their role into play and they can act as a hub and draw the market mechanism into the foreign exchange market system. Through this window, it will also be possible to guide the determination of the actual exchange rate. However, what must be specially guarded against is the price differential for foreign exchange-on-hand certificates becoming too great. Otherwise, it may suggest double foreign exchange rates.

6. In foreign exchange management, direct control cannot be abandoned.

The "transfer and change" in foreign exchange management is a very long process. This is not only because the growth of our nation's strengths nees a very long time, but also because for a nation as vast as China, economic independence is extremely important. Thus, in foreign exchange management, abandoning direct controls and changing to indirect controls is not something which is appropriate at present. Actually in those developed countries which say that they have already implemented indirect controls, the direct controls are like a spectre pacing up and down. They have not been completely done away with. For our nation at present, direct controls still have a significance not easy to ignore. These controls include: implementing a system of permits for imports and exports; implementing direct controls over quantities; the banning of the illegal purchase and sale of foreign exchange; the suppression of the foreign exchange black markets and the safeguarding of Renminbi as the legal tender.

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CSO: 4006/1136

FINANCE AND BANKING

## LIAOWANG INTERVIEWS PRC CUSTOMS DIRECTOR

HK250751 Beijing LIAOWANG in Chinese No 23, 9 Jun 86 pp 14-15

[Article by Lin Hai [2651 3189] and Ge Xiangxian [5514 6272 6343]: "The PRC Customs Services the Policy of Enlivening the Domestic Economy and Opening to the Outside World--Dai Jie, Director of the General Administration of Customs, Answers LIAOWANG Reporter's Questions"]

[Text] Question: What are the main tasks, as far as customs work is concerned?

Answer: In the present new period of socialist construction, when the economic reform is proceeding at a steady pace and when we are enlivening the economy at home and opening up to the outside world, the main tasks of our country's customs can be summed up as: "Keeping watch and rendering services." "Keeping watch" means guarding the economic gate of the state and controlling goods and commodities entering or leaving the country as relevant laws and decrees stipulate. "Rendering services" calls for customs patterns, ways of managements and actual results being conducive to the realization of the party's main tasks and goals and serving socialist modernization. The specific duties of our country's customs boil down to the following: 1) Exercising control over all means of transportation, cargoes, gold and silver, monies, negotiable securities, luggage and effects, mail and other non-trade commodities, entering or leaving the country; 2) Collecting tariffs and others taxes; 3) Discovering smuggler and making arrests. Meanwhile, the customs is responsible for the compilation of customs statistics. In the past few years, with the introduction of the policy of opening to the outside world, and the rapid increase in economic exchanges at home and abroad, custosm work has become much richer in content than before. The volume of work has also greatly increased. On the one hand the objective situation has given a boost to customs work. On the other, more exacting demands have also been imposed on customs work. This requires the customs not only to facilitate entry and departure, but also to strengthen control. The aim is to stimulate and protect the building of socialist material and spiritual civilization.

Question: Please say something about the following: What reform measures have been taken in customs work in the past few years? What achievements have been scored?

Answer: The development of the customs undertaking in the past few years has been closely related to our country's policy of enlivening things and opening up. Without the policy of opening up, the customs undertaking could hardly have witnessed such a favorable situation today. The ever greater progress made in enlivening things and opening up has forced the customs to carry out reforms in various fields to meet the needs of the existing new situation. The first important policy about overall reform in customs was the State Council's decision on reform of the customs management system. To give full play to the supervision and management functions of the customs and strengthen centralized and unified leadership, the State Council decided in 1980 to bring the customs organizational system under central control, and let the General Administration of Customs exercise unified control over the staff and business matters of customs organs throughout the country. The customs management system reform has given an effective boost to reforming customs business and customs organizational construction, enabling customs work to enter a new development stage.

First, with regard to business matters, we made it clear that the customs must correctly and properly handle the relationship between paying strict attention to keeping watch, and the need to facilitate legitimate entry and departure and exercise control over import and export goods and commodities. This is to say that we must not only do a good job keeping watch but also do so in a rational and effective manner. In opering up to the outside world, we must allow goods to enter and leave quickly, and reduce the time spent at a port as much as possible. To this end, we must simplify port control procedures and strengthen subsequent control. The main measures taken have been: Narrowing the scope for inspecting import and export goods at the port; enlarging the scope for a customs transportation control system; introducing a method of combining emphasis on the selective examination of goods shipped by containerization with examination and verification based on relevant documents; introducing a system of tax-guarantee [bao-shui 0202 4451] warehouses and tax-guarantee factories for various kinds of tax-guaranteed import goods; introducing a system for registering import and export operating units, and training and assessing workers responsible for customs declaration; and conducting experiments by posting customs officials at warehouses and factories to carry out supervision. In line with the actual conditions of given areas, customs organs at various levels take measures to accommodate the owners of goods, such as by: Directly inspecting and clearing import and export goods on board ship; clearing, against the presentation of letters of guarantee, certain cargoes, which are not accompanied by complete sets of waybills for special reasons but which must be immediately taken delivery of and transported; the customs handling of customs declarations at import cargo transportation ports on a 24-hour basis, and so forth.

In handling incoming and outgoing travelers' luggage and effects, we have changed the previous practice of thoroughly checking and carefully inspecting everyone. We have experimented with the system calling for two passageways, one for those who have taxable items to declare and one for those who have nothing to declare (also known as the red and green passageways.) Luggage and effects are subject to inspection with the use of proper instruments, and the system of selective inspection has been introduced. Emphasis is put on civilized inspection and on a courteous attitude toward others, with a fine customs style established. The scope for allowing duty-free imports for certain incoming and outgong travelers has been widened. The tax exemption ceiling on incoming postal parcels has been raised. Second, we have made it clear that given the socialist commodity economy, full play should be given to the regulatory role of customs tariffs as one of the economic levers. In line with the policy of opening up, we should attract more foreign investment and foreign advanced technology to promote domestic projects that have been given priority support. In our approach to certain import goods, the customs has formulated a series of policies regarding preferential tariffs in line with such principles as dictated by different areas, different categories, the different nature of trading, the different sources of funds, and so forth.

The next important thing in the reform of taxation is to revise and implement new tariff rules and regulations and tax rules, perfect the legal system on tariffs, and reduce the average tax rates on import goods to a relatively large extent. In addition, we have started levying regulatory import taxes on some import goods. This is an effective measure in coordination with state readjustment of the domestic industrial structure and macro control over imports and exports. Apart from two main measures above, we have reversed the previous situation marked with "an overall assault but without substantial results achieved." We have focused investigation and action on large and important cases, especially the smuggling and illegal activities of enterprises and institutions. In statistical work, we have taken accuracy, speed and actively providing advice and information as our goals, thus givign full play to the role of customs statistics in serving and governing the national economy.

Simultaneously with the carrying out of reforms in business matters, we have speeded up organizational construction. In line with the needs of business development, we have increased the number of customs organs and added to the staff. We have readjusted the grading of customs organs and the relationships between those at higher and lower levels. We have readjusted leading groups and strengthened cadre training, enabling cadres to take a big step forward along the road of "four modernizations." All this has ensured the smooth development of various general and specific customs policies, and reform in business matters.

In the past few years, the customs has gone through reform and construction, achieving very obvious actual results. First, given a rapid increase in the volume of work and an ever complicated new situation, the customs has effectively undertaken management, tax collection, and other duties. Compared with 1979, the goods handled and cleared by the customs, the number of passengers entering and leaving the country through the customs, and the amount of collected tariffs and taxes obtained on behalf of others, registered increases of 90 percent, 370 percent, and more than 600 percent respectively in 1985. Second, strict watch is kept over the customs gate. Due to: Various economic factors in imports and exports; a variety of methods of operation and transportation; thriving smuggling activity along the southeastern coast; and to the large numbers of people entering and leaving the country and their varied backgrounds, control over export and import commodities and goods was rendered much more difficult. With the support and cooperation of relevant departments, the customs daopted decisive measures and launched an anti-smuggling campaign. In 1985, the customs cracked more than 23,500 cases of smuggling involving nearly 710 million yuan, and seized 200,000 pieces of reactionary and pornographic printed matter. This was a relatively large increasing [word indistinct]. Third, entry and departure has been facilitated. For example, at customs offices involving a relatively large flow of incoming and outgoing travelers, the time taken with customs procedures for travelers has been reduced from 5 minutes to 1. This has been universarlly praised. With regard to control over cargo transportation, given a series of measures aimed at simplifying procedures and providing every facility, a positive effect has been produced in speeding up the circulation of goods at port, stimulating the process of providing port space, and making it easier for recipients, senders and consumers.

Question: Please say something about the kind of work the General Administration of Customs has done training modern customs officials?

Answer: To bring customs work in line with the needs of the developing national economic situation, we have defined the customs guidelines for education and training as a matter of serving the buidling of a force of customs cadres, serving the construction effort in customs business matters, and serving the building of two civilizations in the customs field. In training skilled personnel, basing ourselves on the features of customs work, we first worked out a relatively rational program on the political makeup of customs cadres and the mix of knowledge and competence. Based on the trends in the development of customs work, we forecast the ratio between the increase in the number of customs cadres and the mix of cultural and specialized knowledge, and formulated a general plan for customs education and training at various levels. After efforts during the Sixth 5-Year Plan period, we basically formed a system of customs education at various levels for post-graduates, students in the relevant and in specialized fields, and secondary technical school students, and also a network to provide continued education for cadres combining on and off the job training, combining training within the system and outside the system, and combining training at home and abroad. At present, the customs has more than a dozen education and training bases throughout the country. In foreign economic relations and trade colleges, customs management departments have been set up. These are chiefly responsible for the training postgraduates in the specialized customs field, students in the relevant field, and other high-level customs management personnel. The Shanghai Customs College, the cadres schools for PRC customs management established in Guangzhou and on Qinhuang Island during the past two years, secondary customs schools, and other schools, are chiefly responsible for the training of middle-level and junior management personnel of college and secondary vocational school standard. In addition, through cadres' secondary vocational schools and ecucation and training centers, we have joined given areas in holding joint customs vocational classes. We have entrusted relevant colleges and schoosl with the business of running customs inspection, tax assessment and collection, and auditing classes. We have also selectively sent the vocational backbone to developed countries and various colleges and institutes of higher learning at home, for study and training. In the period from 1980 to 1985, the PRC customs had subjected leading cadres at and above the sectional level to a period of fundamental training, and given 6,000 new customs officials 6 months training prior to their assumption of relevant duties. After several years of effort, the cultural and vocational standards of the ranks of customs cadres have shown obvious improvement. The percentage of cadres with a cultural standard at or above college or institution of higher learning level rose from 11 percent in 1980 to 23 percent in 1985. Refresher junion and higher middle school cultural courses have been provided for 3,000 cadres. Of the ranks of cadres, those with cultural standards at and above the higher middle school level account for 90 percent at present. During the period of the Seventh 5-Year Plan, we will devote ourselves to improving the quality of education and training and will pay particular attention to the training of cadres in the political and vocational fields. This is in an effort to create a new force of customs cadres with ideals, moral consciousness, cultural standards, and a sense of discipline suited to the needs of customs work.

Question: To enable the PRC Customs to meet the demands of modernization, what measures will be taken in future?

Answer: The reform of customs work will at all times focus on "keeping watch and rendering services" as it center. After several years of practice, the guiding principle for future customs work calls for putting emphasis on stimulating economic relations, trade, scientifc, technical, and cultural exchanges with foreign countries, and the activity of making contact with foreign countries in a shift of emphasis from watchfulness to stimulation. We must continue doing a good job of reform and consolidating the results already achieved. We must direct efforts toward perfection in linking things up. We must focus on accelerating "construction in three fields." These are, the customs legal system, the spiritual civilization of the ranks of customs cadres, and the overall modernization of customs management.

This year, we are prepared to take the revision and implementation of "customs law" as the central effort and, in a planned manner, revise or work out various ways of control, putting customs laws and regulations on a systematic basis gradually. On such a basis, we must do a good job in studying, disseminating and implementing customs laws and regulations.

The building of spiritual civilization in the ranks of customs cadres is another important task facing us. Early this year, we held a national customs ideological and political work conference calling for an effort to bring about a fundamental turn for the better in party style and in customs practices this year. In line with the central demand, we will also carry out inspection and reorganization to get rid of activities that run foul of law and discipline and any acts of abuse of authority. Meanwhile, we hope that through realistic and effective education on the fundamental principles, and education on ideals and discipline, the customs officials will universally foster a concept of "winning honor for the state and being responsible to the people" and further promote such vocational and moral practices as being dedicated to the job, enforcing laws impartially, being attentive to civilization, carrying oneself with dignity, performing one's duties honestly, and strictly observing law and discipline. They must project a lofty image of the PRC Customs at home and abroad.

To bring customs work in line with the demands of modernization, we must also introduce scientific management covering various customs management systems, regulations, and technical facilities. With regard to the system of management, we must put emphasis on strengthening follow-up control over import and export goods, further simplify inspection procedures concerning travelers' luggage, effects, and personal mail, and perfect the tariff system. Speaking of technical facilities, we must pay proper attention to research, manufacture, importation, and application concerning the art of using computers and communication skills, and the art of inspecting goods entering and leaving the country. Through these efforts, we will try to turn the PRC Customs into a civilized and highly efficient state organ exercising supervision and control over imports and exports.

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# TAX EVASION IN NINGXIA REPORTED, CALLED SERIOUS

Yinchuan NINGXIA RIBAO in Chinese 25 Sep 85 p 2

[Report by Qi Yanbin [4359 1750 2430]: "Tax Evasion by Certain Units and Individuals in Our Region Is Serious"]

[Text] During tax inspection in our region, it was discovered that the problem of tax-paying units and individuals in certain areas seeking to take advantage of loopholes in the reform of our economic structure and violating state taxation policies and decrees in their attempt to pay less or evade taxes is serious.

According to available statistics, from January through July the region's various departments have inspected 7,322 households of tax-paying units and individuals; among those found with such tax evasion behavior amounted to 4,383 households, making up 60 percent of the inspected households, and the tax payments thus evaded anounted to more than 130,000 yuan. The Shizuishan tax bureau, through its inspection of 6 companies, revealed more than 130,000 yuan of taxes evaded. The tax bureau of Yinnan Administrative Office organized needed manpower to carry out inspection of 24 enterprises in Qingtong Municipality, with each and every household found to be problematic, and the amount of evaded taxes totalling 100,000 yuan. The tax bureau of the new urban center of Yinchuan Municipality carried out inspection of 50 individual households and found 49 of them to have engaged in tax evasion.

The above-mentioned units and individuals, for the sake of tax-evasion, could not care less about selecting more palatable means; their evasion turned out in various forms and shapes which, if summarized, roughly include: 1. Keeping their income secret; certain tax-paying units and individuals refrain from entering their earnings into their accounts, purposely entering them under payment-and-expenditure items, or creating false items so as to deceive the tax organs or collecting personnel. 2. Juggling and listing at random their expenses in order to have them take the place of costs. Among their concrete manifestations, these include the case of raising the proportions of various special funds, the case of issuing awards, subsidies and goods indiscriminately, the case of entertaining guests and presenting gifts, the case of extravagant spending and waste. the case of elevating the standards for various expenditures, the case of assigning contributions at random, etc., etc. 3. Reporting false situations in order to get reduction or exemption in taxes by deception. For instance, there are 87 companies of various titles in Shizuishan Municipality; some of them report false situations in the name of a collective enterprise or intellectual-youth enterprise so as to get a tax reduction or exemption by deception. 4. Account entries being untrue, so that there is no basis for taxation. Individual households would keep no account entries; they would have incomplete invoices for purchased goods, thus making it impossible to verify and tax them and hence to meet the requirement of their making full tax payments. In the case of certain individual households, several or even several tens of persons would do business, and they would also fail to keep accounts and resort to paying less or no taxes. According to an investigation of 150 enterprises collectively managed by individuals in Yinchuan Municipality, those whose account entries are found to be incomplete or false make up more than 85 percent. 5. Certain tax-paying units and individuals seek to take advantage of the current loopholes of the tax departments lacking sufficient personnel, falling short in their operational quality, handling excessive volumes of business, and lacking carefulness and strictness in their tax collection and management, so as to refrain for a long time after they have opened their business from reporting and paying their taxes. 6. Offering bribes and drawing others to their side or looking for a protective umbrella.

On the basis of a preliminary inspection, the tax departments have proceeded to dispose the problems thus discovered. Up to the end of July, the region has found 3.67 million yuan of evaded tax payments. During this nationwide financial and tax inspection, of those among the tax evasion cases whose situation are found to be serious, some units and individuals are given disciplinary punishment; those whose cases ran counter to the penal code are turned over to the judicial departments to be handled according to law.

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CSO: 4006/251

## FINANCE AND BANKING

### PAPER STUDIES ENTERPRISES SHARES SYSTEM

HK240539 Beijing JINGJI CANKAO in Chinese 2 Jun 86 p 2

[Arttticle by Gu Tiefeng [7357 6993 7364]: "Implementing a Shares System To Restore the Original Features of Collective Enterprises--Discussion on Theory and Practice of an Enterprise Shares System (Part One)"]

[Text] From 13 to 16 May, the administrative bureau of machine building industry of Shenyan City held a theoretical discussion on the enterprise shares system. Some 200 experts, scholars and economic workers from various parts of the country explored and studied the problem of the enterprise shares system on the basis of combining theories with practice.

Participating experts and scholars maintained that the implementation of a shares system would restore the character, original features and appearance of the collective enterprises.

The work of implementing a shares system by the administrative bureau of machine building industry of Shenyang City was started in the Shenyang miniature compressor plant and the Shenyang compressor valve plant. Collective enterprises were originally economic organizations run by laborers who jointly raised funds, owned the means of production, worked together, and employed a method of distribution according to work and shares. However, with "leftist" ideology and dogmaticism running wild, the form of such organizations was sabotaged. As a result, the line of demarcation between ownership by the whole people and collective ownership became obscured. The sense of responsibility of staff members and workers as the masters of their own enterprises became blunted.

Shenyang miniature compressor plant and Shenyang compressor valve plant have drawn a profound lesson in this regard.

Shenyang miniature compressor plant was officially established in 1962. Its predecessor was a cooperative production group run by shareholders who were responsible for the profit and loss of the group. The only old-fashoined belt-driven lathe was bought by money paid for shares. Tools needed in production were brought from home by shareholders. Although production conditions were simple and crude, and very often workers' wages could not be paid on schedule, the workers never thought of dissolving the On the contrary, they united closely, and everyone suggested ways and means by which the production group could survive. When the plant was officially established, wages for workers could be paid regularly. In addition, the plant bought facilities and equipment, and paid business tax and profit tax to the state. However, due to the influence of the "leftist" ideology of "larger in size and having a higher degree of public ownership," some people thought that the higher degree of public ownership the better. The enterprise was gradually turned from a production group, into a cooperative which belonged to a neighborhood committee, into a small collective unit which belonged to a district, and finally into a big collective unit which belonged to the city. Staff members and workers gradually depended on the state, successively drew back their individual shares, and gave up their ownership power over the enterprise assets. Staff members and workers no longer cared about enterprise business and development of collective enterprise was severely hampered.

In the reform process over the past two years, the administrative bureau of machine building industry in Shenyang City was realized that a complete reform of the ownership system is a fundamental way of overcoming the various defects of collective enterprises. Efforts should be made to restore the character and original features of the collective enterprises so that production relations will be in accord with the development level of productive forces. Besides, the administration of collective enterprises based on state-operated patterns should also be changed. The ownership structure inside enterprises should be reformed, and administration based on a shares system should be set up. In June last year, the bureau gained initial experience on a trial basis. In March this year, the experiment was expanded to 19 collective enterprises, and a small enterprise under ownership by the whole people, which was administered according to the requirements of a collective enterprise. A better result was achieved in this regard.

Profound changes have taken place in the short period of less than one year, in the two collective enterprises which have implemented a shares system since June last year, with regard to their business management and the mental outlook of their staff members and workers. 1) The character and original features of collective enterprises have been restored so that the form of collective ownership is in accord with the present level of development of the productive forces. Productive forces have thus been liberated. 2) Since the implementation of the shares system, staff members and workers have truly become the masters of their enterprises. This has given play to their enthusiasm and creativity. Staff members and workers are owners of the assets of the enterprises. In the meantime, they are also operators, laborers and beneficiaries. The interests of staff members and workers are closely integrated with those of the enterprises. When enterprises feel proud of their success, so do their staff members and workers. When enterprises suffer losses, so do their staff members and workers. Therefore, the sense of responsibility of staff members and workers as master of their own enterprises has been strengthened. They show extensive concern for the production and business management of their enterprises. 3) Due to the fact that staff members and workers have become shareholders, enterprises may turn their idle consumption funds into production funds to solve the difficulties of the enterprise's insufficient funds. 4) Generally speaking, staff members and workers are shareholders for life. They should carry out the commitments of running their enterprises. They will take a risk in this respect. Therefore, they should double their efforts to pay atteniton to their enterprise's prospects and the growth of their assets. This will overcome the tendency for enterprise to seek only partial and short-term interests.

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FINANCE AND BANKING

## JOURNAL DISCUSSES CIRCULATION OF FUNDS

HK200831 Beijing JINGJI YANJIU in Chinese No 5, 20 May 86 pp 42-44

[Article by Yin Jieyan [3009 0094 3508] and Wang Xiyi [3769 0823 5030] of the People's Bank of China: "Resolving the Contradictions of Supply and Demand of Circulation Funds and Supporting the Steady Growth of National Economy"]

[Text] At present, an outstanding problem is the rather big contradictions of supply and demand of circulation funds. It needs to be properly resolved in the course of readjusting the economic structure and putting the economic relations in order, thereby facilitating smooth and rapid development of the national economy.

In 1985, the growth rate of bank loans for circulation funds surpassed that of the economy, and was more than double that arranged for under the state plan. It actually exceeded the amount of increase of loans in 1984 when credits and loans got out of control. Why were the contradictions of supply and demand of circulation funds so enormous? The principal causes were: 1) Quick growth of the economy; it exceeded the plan by a big margin and, as a result, the demand volume for funds increased. The growth rate was fast, but the supply of raw materials was insufficient. Certain materials and parts had to be imported. This caused an increase in the use of foreign exchange and in foreign exchange loans and the amount of renminbi required in coordination was correspondingly increased; due to the acute supply in raw materials, the prices of the means of production rose following their entry into the market, and with the readjustment of the structure of commodity prices, the stock of commodity materials increased in value; hence the amount of loans was increased. 2) The enterprises were unable to replenish their circulation funds. In the past, each year the budget provided for several billion yuan of circulation funds for use on simple reproduction. From 1953 to 1985 the state appropriations for circulation funds arranged for by the Ministry of Finance averaged 6.3 percent a year of the budget expenditures. Following adoption in 1985 of the measure of assigning circulation funds wholly to the charge of the banks, the state budget seldom made any provisions for such funds and, in reality, management of these funds by the banks was changed into the banks guaranteeing the circulation funds. As a result, the proportion of the accumulation of fixed assets rose while the proportion of circulation assets dropped. In the past, the ratio of circulation assets in the accumulations was in general 30 percent, but in 1985 it dropped to an average of only 16 percent. Thus, while the older state-run enterprises expanded their production and circulation, their circulation funds could not be replenished and their ratio fell each year; as for the newly established enterprises, at the time of making the arrangements for their capital construction investments, no provision had been made for circulation funds for use following their entry into production; hence, all the circulation funds needed had to depend on bank loans. On the part of the enterprises under the system of collective ownership, their accumulations were mostly used on expanded reproduction and the circulation funds needed had wholly to depend on bank loans. At the same time, due to the large scale of the fixed asset investments, on the one hand, the circulation funds were edged out or used for other purposes, and on the other hand, units which had their production capacity newly consummated also required the use of circulation funds and consequently the demand for them was expanded. All this aggravated the tense state of the circulation funds. 3) Poor economic effects from the use of funds. The products of some enterprises had poor marketability and had to be stockpiled for a prolonged period and there was a large proportion of loans which had become due or had passed their expiry date. Fund precipitation was great and the turnover of funds was difficult. According to statistics, in the whole country, irrational loans amounted to over 10 percent of all the loans. 4) In recent years, of the increased volume of bank loans, nearly one-third consisted of loans for fixed assets. In addition, the enterprises had insufficient self-owned funds and a fixed amount of the assets had to depend on bank loans for a prolonged period. Moreover, the funds for certain material reserves such as grain and cotton which originally had to be provided by the Ministry of Finance also had to be financed by bank loans, thereby causing the use of credit and loan funds for long-term loans to far surpass the sources of long-term funds and a large volume of funds of a short-term nature to be used for a long-term purpose. All this caused a portion of the credit and loan funds to stagnate. 5) Inflexibility of the employment and transfer of funds. The vertical distribution of funds of individual banks was not suited to the lateral economic relations. Between the banks and between the regions, the loan targets among the loan projects were more or less imprisoned in fixed spots and funds generally stagnated in the localities. It frequently happened that whereas one side had plentiful bank deposits the other side was experiencing an acute shortage of funds. In short, the amoutn of limited funds available could not be put to full use.

The above-mentioned problems existed some 2 years ago. At a time when the management of credit and loan funds tended to be lax and under the conditions of "everybody eating from the same big pot" in the use of funds, the contradictions in the supply and demand of funds were not at all obvious or outstanding. Following the stress on economic effects, particularly last year when macroeconomic control was strengthened, the money market was tightened, and issuance of banknotes came under strict control, the problems became obvious. At present, various sides are feeling the impact of the shortage of circulation funds. They approached the banks and the upper-levels for help but neglected the potentials of funds in their own departments, or regions, or units and lacked an effective measure for resolving the problem. Meanwhile, they have continued to invest their main funds on, and to attach importance to, investments in fixed assets. By so doing, the larger the scale of investments, the greater is the production capacity formed, the larger is the volume of circulation funds needed and the more acute becomes the situation of the circulation funds. Hence, at present, resolution of the contradictions in supply and demand of circulation funds requires an overall survey of the whole sitaution, taking the whole of society into consideration and resorting to comprehensive measures.

1. Increasing the accumulation of circulation funds, so as basically to resolve the tense situation in the supply and demand of circulation funds. There is both accumulation of fixed assets and accumulation of circulation assets. The production capacity formed by the first kind of accumulation must be correspondingly coordinated by the latter kind of accumulation before it can display its role and before materials wealth can be created. Without the latter kind of accumulation or with it, but not in coordination, or in full or in a suitable state, then the maladjustment between the two will be aggravated and even enormous wastes and losses may be caused to society. In order to increase the accumulation of circulation assets, first it is necessary to make provisions in the state budget and in the financial budgets at various levels and the circulation funds of all the subordinate enterprises must be separately arranged for. The amounts to be arranged for must be in accordance with the economic growth rate of the state or the other regions. In the event of the arrangements not having been made according to the prescribed proportion, the banks should correspondingly reduce the amount of the loans so as to display their restrictive functions. Second, from the preceding year's balances in the current financial accounts of the localities, an adequate portion should be set aside for granting of loans for circulation funds, or, the banks may be entrusted to grant loans to the enterprises, without changing the ownership right of the funds and with the interest receipts belonging to local finance. Third, in the course of the readjustment of the structure of commodity prices, the portion of the value increment of the commodities should not be treated as fiscal revenue, but should be used to supplement the self-owned circulation fund of the enterprises. If it should be treated as fiscal revenue and allowed to be used in expenditure, then bank loans would be edged out. And if this portion of expenditure should be for investment in fixed assets, the demand for circulation funds would be expanded, and a vicious cycle would be formed. Fourth, there must be a readjustment of the loan structure. In the reform in recent years, bank loans have so expanded as to enter the realm of fixed asset investments and good results have been achieved. But this means exceeding the sources of the bank's long-term funds. In particular, certain loans have designated a repayment period of several decades. This naturally has caused difficulties to the banks in the turnover of funds. Up to the end of this year, bank loans for fixed asset investments will occupy one-sixth of the total volume of loans. Of them, loans for capital construction will make up one-third of the fixed asset loans. An excessive use of the long-term funds of banks will elbow out loans for short-term circulation

funds. Such a situation should be rectified. A rational adjustment should be made consistent with the capacility of the credit and loan funds. Fifth, in arranging for the capital construction investments, arrangements should also be made for circulation funds, so as to ensure that speedy results are attained following the completion and going into production of the projects concerned. Newly-built project and expanded projects that have been completed should be made to put their production capacity into full play, to speedily turn out products and to produce effects. In the event that due to failure to provide the needed circulation funds resulting in adversely affecting the projects' starting or going into production, the banks should, by means of the floating of financial debentures, help to raise the funds to replenish the portion that should have been arranged for by the enterprises or projects themselves, and follow up with granting special loans to the enterprises or projects at a high interest rate. The enterprises or projects should repay the loans from the before-tax profits, and replenish their self-owned circulation funds to gradually reach the prescribed ratio. Sixth, the enterprises should, from their after-tax profit retentions, earmark a fixed amount of funds to be put into the circulation fund accumulations. Past experiences have shown that a rational level for circulation fund accumulations should be in the neighbourhood of 30 percent. The various localities should make the replenishments gradually and in accordance with their respective conditions. Therefore, we must solve the problem of there being small after-tax retentions and insufficient funds on the part of the enterprises, particularly certain large and medium-sized enterprises: at the same time, we must rectify the condition of collective enterprises watching only fixed asset accumulations and depending solely on bank loans for circulation funds. From now on, wherever it is found that certain enterprises do not have the prescribed ratio of self-owned circulation funds, the banks should correspondingly reduce their loans to them and levy interest surcharges on the loans that have already been made. This will help to persuade the enterprises to arrange for their self-owned circulation funds.

2. Making all-out efforts to increase the voluem of deposits, so as to enlarge the source of credit and loan funds. In recent years, following the reform of the economic structure, development of the economy, and improvement of the standard of living of the people, the channels of national income have changed, and there has been an increase in the funds of the society. Residents in the urban and rural areas have more money in their hand. In their work, banks should consider the whole society, organize these various portions of funds, bring about an increase in bank deposits and tap the potentials of social funds. By so doing, it will be possible to gather together the small amounts of scattered funds and covert them into a centralized, huge and strong financial power. Moreover, it will be possible to forestall or delay a portion of the social purchasing power, convert the consumption fund into production fund and provide a safe source for credit and loan funds. In organizing funds, first, we can, by means of the system of savings deposits, absorb the deposits of individuals. Hence, it is necessary to increase the number of collection points of the savings network, and adopt and extend the use of new technologies such as use of electronic computers for the convenience of the depositors so that they will not have

to queue up when making deposits. We may also adopt appropriate contract forms, link together the economic interests of the deposits business with the economic interests of the staff members of the savings establishments, and effect the integration of responsibility, power, and benefit, thus arousing the enthusiasm for organizing the deposits business on the part of the staff members of the savings establishments. In public organs, plants, mines and enterprise units, agency services for the savings business hould be extensively developed. Fixed agency fees should be given and a social promotional force for savings should be engendered. Savings departments should create the conditions for actively performing the job of acting as agents in issuing pay checks, collecting water and electricity charges, and so forth, thus helping to speed up tne return flow of funds. New savings channels should be opened up and the postal savings business should be developed. In busy business districts the number of savings network stations should be increased. If there are difficulties in so doing, the banks should work togetherwith large stores, or factories, mines, and enterprises to jointly engage in the savings promotional business, making use of their facilities to set up network points. Another measure is to widen the credit form, and, through the issuance of financial debentures and share certificates, direct merging of funds should be carried out. By so doing, on the one hand, it will be possible to increase the amount of available funds and, on the other hand, the investors can closely watch the investment results which [word indistinct] their intimate interests. Still another measure is to develop the insurnace business and set up an economical insurance compensation system, thus enlarging the source of funds and helping production to find funds for its needs.

3. Taping the hidden potentials of funds and enhancing the economic effects of the use of funds. Starting from banks and enterprises and ending up with entire society, it is necessary to set up the concept of speeding up the turnover of funds and that of seeking economic effects and to tap the potentials of funds from raising the economic effects of the use of funds. First, various regions and various trades and industries should all advocate targets for speeding up the turnover of funds, lower the level of the use and employment of funds and should adopt the necessary measures for their fulfillment. Second, it is necessary to determine the correct direction of the use of funds. In line with the state's macroeconomic policy of developing the economy, we must differentiate between the different conditions of important or non-important and urgent and non-urgent issues and og good or poor economic effects and accordingly grant differential treatment to various projects, granting loans only to the best ones. Priority should be given to enterprises in the energy, communications and transport, and raw materials sectors in supporting their development. Support should likewise be extended to tertiary industry, to production of marketable everyday consumer, to the production and purchasing activities of enterprises which have foreign exchange earnings, to the development of agriculture and to ensuring meeting the needs for funds for purchasing agricultural and sideline products designated in the budget. As for extra-budget purchases of agricultural and sideline products which are marketable and conform with

state's price policy, appropriate support should be given subject to the condition of the availability of funds. Third, material resources and funds must both be invigorated. The various departments concerned must exert efforts, in a planned manner and within a prescribed period, to complete the tasks of liquidating and handling stockpiled material resources, revitalize them, and truly make use of this category of social wealth, thus enlivening a portion of the funds. Simultaneously, the banks should tightly grasp the recall and recovery of loans that have expired or have passed their expiry date, and should also liquidate those bank loans arising from the irrational use of circulation funds. Fourth, the banks should categorically decline granting any loans to enterprises which have simultaneously continued production and accumulated losses in operation or which have incurred losses of a policy nature without any source of funds for compensating the losses, or enterprises which have failed to revert to profit making even after a designated period. To grant loans to this category of enterprises would only preclude loans to enterprises for proper uses and cause a waste of social funds. For the purposes of truly restricting the use of the limited amount of funds to production, it should not be permissible to employ circulation funds for capital construction purposes, or for participation in investment, or compensating losses, or delivery to the state of profits not yet realized. Offenders should be punished by measures such as the bank recalling the original loan for circulation funds or charging surplus interest, according to the regulations, on the loans.

4. Performing a good job in the merging of funds and speeding up the turnover of funds. By so doing, it will be possible to make one penny serve the purposes of several pennies. At present, certain localities can still be found in which while their specialized banks have plentiful deposits, a state of acute shortage of funds is still proclaimed. This is principally due to the funds not having been merged well, or flexibly regulated or put to active use. In these localities, in the use of funds objective disparities in various aspects are found, such as in the time element, in locality, or in projects. Frequently, conditions are found such as one sector being rich in funds while the other sector is extremely short of funds, or one sector enjoying an increase in funds while another sector suffers from a decrease, or in one sector funds are being put to extensive uses whereas in another sector the funds have remained idle. This will require the banks to actively exploit their role of regulating and merging funds and guiding the direction of the flow of funds between the various localities and the various departments, between the various banks and the various projects, and between renminbi and foreign exchange, and thus to put a portion of the stagnated funds into circulation again. In the process of merging the funds, importance should be attached to promoting the appearance of lateral economic liaison, that is to say, the banks should, by means of merging the funds, support the development of certain economic joint bodies which reach across localities, trades and industries and departments.

In current economic life, it is common for enterprises to loan each other funds. Certain enterprises have experienced the difficult of not being able to promptly obtain repayment of loans that are already due. In a locality, if it happens that a specialized bank fails to obtain payment of its receivable accounts, then the structure of the offsetting of accounts between banks may be disrupted and the turnover of funds may also be badly disrupted. Against a condition of this kind, on the one hand, it is necessary to strictly enforce the system of closing or clearing of accounts and to actively liquidate all defaulted accounts and, on the other hand, we may try out the system of the cashing or discounting of commercial bills and have the central bank provide a sum of money to help the enterprises to settle the outstanding accounts between them.

In order to do a good job in merging funds, various banks should perform their financial services well. At the moment, the forms of commodity exchange are many and diversified, the methods employed are flexible, and not only is the volume of exchange large but also the scale and scope are wide. Some people with "piles of money girdled around their waist" may attempt to carry out transactions in cash, but this is highly unsafe and unsound. This requires that the means for settlement of accounts and credit circulation offered by the banks should be in diversified forms and be flexible, convenient, and fast. The banks should indeed improve their settlement system and increase the credit tools so as to serve the purposes of speeding up circulation and invigorating production.

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## MINERAL RESOURCES

### NEI MONGGOL GOLD PRODUCTION REPORTED

Hohhot NEIMENGGU RIBAO in Chinese 17 Aug 85 p 1

[Text] The gold production system in our region, by adhering to the reform of our enterprises and earnestly grasping technical transformation, has achieved new results in gold production this year. According to statistics provided by the gold company, cumulatively from January through July this year already 43,450 liang of gold have been produced, with 65.8 percent of the year's plan thus fulfilled, representing 7.6 percent increasae over those during the corresponding period last year. It is estimated that 80,000 liang of gold will be produced this year.

Since last year, state-run gold mines in the autonomous region have generally carried out delegation of authority, reforms and contract work and proceeded to dissect economic and technical targets and undertake contract work by shifts and groups in individual mining pits and workshops and thereby further mobilized the enthusiasm in production of the vast ranks of staff and workers. The production of our 24 state-run mines during the first half of this year has in general increased by more than 20 percent over that of the corresponding period last year. The production momentum in the two banners (counties) that produce 10,000 liang of gold and above have been steadily good; some mines have already fulfilled production tasks of the whole year 5 months ahead of schedule. All mines are paying attention to renovating their technology, changing their technological process, thus considerably reducing their exhaustion and damage rate, and improving their recovery rate. While closely grasping production, the principal mines at the same time have reinforced their geological ore exploration, increased their backup reserves, and ensured the continued increase in their production.

During such gold production operations the various localities, in accordance with the spirit of "opening the gate in the case of the small mines, and letting out quickly when water cumulates," have also actively organized and mobilizd townships and towns to run collective and combined-households mining depots and mobilize the masses in an organized manner so as to have them do their best in unearthening the gold ores. This year, the Karaxin Banner alone has set up 21 collective mining depots, with nearly 1,000 gold-digging masses.

Nei Monggol is vast in area with its resources scattered in extensive regions and at numerous spots; the gold deposits here are considerable. In order to strive for the realization of quadrupling our gold production by 1987, the state and the region have already invested 15 million yuan to create, expand and transform 6 mining projects; with these capital construction works completed, our production this year will increase by 10,000 liang.

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LABOR AND WAGES

## 6TH 5-YEAR PLAN EMPLOYMENT FIGURES REPORTED

Changchun JILIN RIBAO in Chinese 22 Sep 85 p 4

[Text] New data provided by the State Statistics Bureau and other concerned departments illustrate that during the 6th 5-Year Plan the labor forces in the country's cities and towns had grown conspicuously and become an important indicator of the continued development of our social productive forces.

From 1981 to the end of 1984, newly employed personnel in the country's cities and towns numbered 28.35 million; it is estimated that 7.45 million more will be placed this year. This way, the personnel newly placed in employment during the 6th 5-Year Plan period would expect to reach 35.8 million.

Because of the energetic development of our collective economies and adequate development of our individual economies, avenues for employment have increased and new changes have also emerged in our employment structure. From 1981 to the end of 1985, the numbers of staff and workers in the country's units under collective ownership and of individual laborers according to estimates are going to increase 36.1 percent and nearly 5 times respectively. Among the social laborers of all cities and towns, the proportion of staff and workers of the collective units is going to rise from 23 to nearly 26 percent, and that of individual laborers, from 0.8 to 3.8 percent.

Employed personnel in light and textile industries, especially the labor-intensive type of trades and tertiary industries, have increased by great numbers; this is another salient change in our employment structure. Employed personnel in the tertiary industries of the country's cities and towns are according to estimates expected to reach by the end of this year more than 52 million, an increase of 29 percent over those of 1980; among these, employed personnel in the commercial and food industries and service industries exceed 10 million, an increase of more than 40 percent.

While changing the employment structurem the employed personnel at the same time have also undergone changes in their own structure and quality. Among the newly employed personnel during the 6th 5-Year Plan period, university, secondary college and technical school graduates have increased by large numbers, numbering almost 4.8 million.

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LABOR AND WAGES

## BAN YUE TAN DISCUSSES LABOR CONTRACT SYSTEM

HK261550 Beijing BAN YUE TAN in Chinese No 11, 10 Jun 86 pp 14-17

[Article by Wang Jianxin [3769 1696 2450]: "A Talk on the Labor Contract System"]

[Text] Editor's note: The reform of the employment system is a major reform of the existing labor system. This reform will help in eliminating such defects in the existing employment system as giving too many benefits to workers, exercising too rigid control, being able to get in but not out and being assigned to a job for life, and will help to arouse the broad masses of workers' sense of duty as masters of the house and their enthusiasm for production, further improving enterprise management, strengthening labor discipline, raising the quality of workers, strengthening enterprise vitality and stimulating the development of production. Sincce 1980, some areas of our country have started reforming the employment system, experimenting with the labor contract system. This magazine has asked Comrade Wang Jianxin of the Work Force Planning Bureau of the Ministry of Labor and Personnel to write an article about the need for a labor contract system in light of conditions about experiments. [End Editor's note]

A major reform in our employment system involving the labor contract system has been tried out in provinces, municipalities, and autonomous regions throughout the country. Experience shows that the introduction of the labor contract system helps in doing away with the defect of "an iron rice bowl," improving the quality of the ranks of workers and strengthening enterprise vitality; helps in allowing enterprises and workers to make mutual choices under given conditions; and helps in gradually bringing about social control of labor to meet the needs of the development of a planned commodity economy.

Our enterprise employment system has undergone a complicated and tortuous process of change. Shortly after the founding of the PRC, to solve the serious problem of unemployment left over from the old society, stabilize the political situation, and revie the national economy quickly, the policy of "taking care of things" was applied to enterprises of bureaucrat capital and the Kuomintang administrative and military personnel. Later, the scope for "taking care of things" was gradually enlarged. Every laborer beginning work in towns and townships was assigned work by the state in a unified manner, with a fixed work system adopted. Thus, workers were encouraged to concentrate on their work, the irrational circulation of laborers was avoided, and social order was stabilized. But with the fixed work system linked with egalitarianism in the distribution of wages, and with the "iron rice bowl" linked up with the practice of "eating from the same big pot" a series of defects arose:

1. Workers' enthusiasm to get ahead was dampened. With the fixed work system introduced, no matter what the labor attitude of a worker and whether he was competent for the job, he could hold on to the "iron rice bowl." This contributed to laziness and a dependent attitude on the part of some people and to lax labor discipline. Now, even after the reorganization of our enterprises, this situation still exists in many units, to different degress. One of the main reasons is that apart from the absence of effective ideological and political work, the fixed work system is introduced with no distinction between good and bad performers, with everything taken care of.

2. Workers' freedom to make a rational choice of work was restricted, thus preventing them from fully using their respective talents in socialist construction. Under the fixed work system, a worker was usually assigned to a job held for life. Even if its had nothing to do with what he had learned or what he had specialized in, he had to reconcil to it. This had a very unfavorable effect on our encouraging workers to study technical matters and develop their talents, and interfered with the improvement of the quality of the ranks of workers.

3. This cannot help in improving operations and management and raising labor productivity. Under the fixed work system, a person that an enterprise needed could not get in and a person that it did not want could not go. It was difficult to make rational arrangements in line with production needs and to make economical use of labor. At present, while many enterprises have a relatively large number of extra personnel, there is still a shoftage of skilled personnel on the first line of production. The composition of laborers in the first, second, and third lines is irrational. One of the reasons is that workers cannot rationally circulate within the whole scope of society under the system of ownership followed by labor departments and enterprises in line with the fixed work system.

4. The development of a wide market to stimulate labor employment was hampered. Under the fixed work system, people thought that being permanent workers, they were the "lucky ones." This caused people waiting for employment to pin their hopes on the state. The initiative or enthusiasm of various segments of society to provide employment opportunities was also suppressed. This was not conducive to the implementation of the "three-in-one combination" labor employment guideline and interfered with the development of the collective economy and the individual economy.

The fixed work system has become unsuited for the needs of our country's social and economic development and must be changed.

The labor contract system is an employment system that calls for using a legal form like the labor contract to establish and readjust the relations of labor between enterprises and workers. This system requires an enterprise to make a labor contract based on mutually agreed principles in recruiting workers.

A labor contract generally provides for the following: The duties assumed by a worker, the duration of a contract, labor conditions, pay plus insurance and welfare benefits, labor discipline with rewards and penalties, conditions for altering and nullifying a contract, the responsibilities assumed for a breach of contract, and other matters to be laid down, as considered necessary by both sides. The duration of a contract may be long or short, as agreed upon by an enterprise with a worker himself in light of its production (work) needs. At the expiration of a contract, both sides may sign a new one, as dictated by continued production (work) needs. Once a labor contract is signed, both sides are bound by it and must strictly follow it. From this, it can be seen that as a new employment system, the labor contract system gives better expression to the combination of economic means, legal means and administrative means and the unification of duties, rights and economic interests. This helps in maintaining the stability of the ranks of workers and can also stimulate the proper circulation of workers. All these show that the labor contract system is an improvement on the fixed work system, with the latter's strong points developed and its defects discarded.

Like permanent workers, the workers recruited by an enterprise under the labor contract system are its masters enjoying the same political rights and participating in enterprise democratic management. Workers under the contract system who make special contributions should be awarded political honors and given material incentives, according to state stipulations.

The orientation of the labor contract system is in line with the main goal in our economic reform and is an objective demand posed by our social and economic development.

First, the labor contract system is compatible with the character of social mass production. In social mass production, given the increasingly short period of upgrading for new techniques, new technologies, and new equipment and an ever greater saving in live labor, an increase in labor productivity is stimulated. Certain traditional industries have gradually fallen into decline and new industries have kept appearing. This has brought about the social circulation of laborers. On the other hand, the concrete process of production in social mass production also calls for maintaining the relative stability of skilled workers to ensure the continuous development of production. The introduction of the labor contract system can bring about the dialectical unity of the mobility and stability of laborers.

Second, the labor contract system is inline with the needs of the development of our planned commodity economy. The planned commodity economy requires various sectors of the national economy and enterprises to organize production and operating activities in line with market needs under the guidance of state plans, apart from necessarily fulfilling mandatory plans handed down by the state. This will naturally give rise to changes in the labor requirements of various sectors and enterprises in regard to quantity and quality. The distribution and redistriction of labor are called for. The introduction of the labor contract system can make for the flexible readjustment of the labor force and the realization of the aim of bringing the labor force under social control.

Third, the labor contract system meets the demand of strengthening enterprise vitality. For an enterprise to really become a commodity producer or operator that is relatively independent, in full charge of its own operations and responsible for its own profits and losses--this not only calls for decision-making power in production and operation but also the power to recruit workers. Having introduced the labor contract system, an enterprise has more power to recruit workers. People needed for production can get in and those not needed can go. A rational composition of laborers is maintained. Production is organized according to a fixed number of workers and a fixed quota. A boost is given to labor productivity and economic results.

Fourth, the labor contract system is in line with the character of socialist labor. In the socialist period, people's labor is of a dual nature. It is labor directly serving society and also an individual means of making a living. Labor has not become the first necessity of life. People want to make the best choice of work according to their own abilities, their preferences, they physical conditions, and so forth. The workers' choice of work helps in the development of talent and in arousing their initiative and creativity at work. The introduction of the labor contract system vests workers with such a right.

Fifth, the labor contract system meets the needs of labor legislation. Comrade Deng Xiaoping pointed out: "The relations between the state and enterprises, among enterprises, and between enterprises and individuals must also be legally defined. The contradictions between them must, in most cases, be solved legally." The labor contract system entirely fits in with and embodies this principle. The introduction of the labor contract system provides legal protection for the labor relations established between both sides through the signing of a labor contract.

We believe that under the impetus of the economic reform, the labor contract system marked with Chinese characteristics and full of life and vitality can surely be universally introduced throughout the country.

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